

Financial Statements and Report of Independent Public Accountants

**Housing and Community Development Corporation of Hawaii**

Year ended June 30, 2004

Housing and Community Development Corporation of Hawaii

TABLE OF CONTENTS

	Page
Management's Discussion and Analysis	1
Financial Statements	
Report of Independent Public Accountants	17
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets – Governmental Activities and Business-Type Activities	19
Statement of Activities – Governmental Activities and Business-Type Activities	21
Governmental Fund Financial Statements	
General Fund	
Capital Projects Fund	
Housing Voucher Fund	
Section 8 Contract Administration Fund	
Other Governmental Funds	
Balance Sheets	22
Reconciliation of the Government Fund Balance to the Statement of Net Assets	23
Statement of Revenues, Expenditures, and Changes in Fund Balance	24
Reconciliation of the Change in Fund Balance of Government Funds to the Statement of Activities	25
Proprietary Funds Financial Statements	
Federal Low Rent Program	
Dwelling Unit Revolving Fund	
Homes Revolving Fund	
Rental Housing System Revenue Bond Fund	
Single Family Mortgage Purchase Revenue Bond Fund	
Other Proprietary Funds	
Internal Service Funds	
Statement of Net Assets	26
Reconciliation of the Proprietary Funds Net Assets to the Statement of Net Assets	28
Statement of Revenues, Expenses, and Changes in Fund Net Assets	29
Reconciliation of the Change in Fund Balances of Proprietary Funds to the Statement of Activities	31
Statement of Cash Flows	32
Fiduciary Funds Financial Statements	
Private Purpose Trusts	
Statement of Fiduciary Net Assets	35
Statement of Changes in Fiduciary Net Assets	36
Notes to Financial Statements	37

# TABLE OF CONTENTS

	Page
Required Supplementary Information Other Than Management's Discussion and Analysis	
Budgetary Comparison Schedule – Major Governmental Funds	85
Budgetary Comparison Schedule – Budget-to-GAAP Reconciliation	87
Supplementary Information	
Combining Balance Sheet – Nonmajor Governmental Funds	89
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	90
Combining Statement of Net Assets – Nonmajor Enterprise Funds	91
Combining Statement of Revenues and Expenses – Nonmajor Enterprise Funds	93
Combining Statement of Changes in Fund Net Assets – Nonmajor Enterprise Funds	94
Combining Statement of Cash Flows – Nonmajor Enterprise Funds	95
Combining Statement of Net Assets – Nonmajor Revenue Bond Funds	98
Combining Statement of Revenues and Expenses – Nonmajor Revenue Bond Funds	99
Combining Statement of Changes in Fund Net Assets – Nonmajor Revenue Bond Funds	100
Combining Statement of Cash Flows – Nonmajor Revenue Bond Funds	101
Combining Statement of Net Assets – Nonmajor Other Enterprise Funds	103
Combining Statement of Revenues and Expenses – Nonmajor Other Enterprise Funds	105
Combining Statement of Changes in Fund Net Assets – Nonmajor Other Enterprise Funds	106
Combining Statement of Cash Flows – Nonmajor Other Enterprise Funds	107
Combining Statement of Net Assets – Nonmajor Miscellaneous Enterprise Funds	109
Combining Statement of Revenues and Expenses – Nonmajor Miscellaneous Enterprise Funds	111
Combining Statement of Changes in Fund Net Assets – Nonmajor Miscellaneous Enterprise Funds	112
Combining Statement of Cash Flows – Nonmajor Miscellaneous Enterprise Funds	113
Combining Statement of Net Assets – Internal Service Funds	115
Combining Statement of Revenues and Expenses and Changes in Fund Net Assets – Internal Service Funds	116
Combining Statement of Cash Flows – Internal Service Funds	117
Reconciliation of Cash and Short-Term Investments	118

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

The Housing and Community Development Corporation of Hawaii (Corporation) is a housing authority, established by the State legislature effective July 1, 1998. HCDCH consolidated the previous Hawaii Housing Authority, the Housing Finance and Development Corporation, and the Rental Housing Trust Fund Commission.

The Corporation administers the following major programs:

- Federal and State public housing programs
- Federal and State rent subsidy programs
- Homeless programs
- Development programs to facilitate affordable housing development
- Financing programs to facilitate affordable housing development
- Financing programs to assist first-time homebuyers.

The Corporation is responsible for the administration of over 5,000 federal public housing units in Hawaii, with funds received from the United States Department of Housing and Urban Development (HUD). The Corporation also administers the HUD Section 8 Housing Assistance Payments - Special Allocations Program, through a subcontract with the Bremerton (Washington) Housing Authority.

The Corporation has received authority from the State to assist in the delivery of affordable rental housing throughout the State on a cost-effective basis, through the financing and/or refinancing of rental housing projects developed or acquired by the Corporation.

In addition, the Corporation administers a rental assistance program that subsidizes rental payments to persons and families with incomes that do not exceed 80% of the area median income. The Corporation also provides incentives, through tax credits, to developers and owners of private rental housing projects where the monthly rents are affordable to tenants with incomes of 60% or lower of the area median income.

The Corporation provides low interest loans or grants to qualified owners and developers constructing affordable housing units. To date, funds have been provided for thirty projects for the development of 2,300 rental units.

The Legislature has also authorized the Corporation to make funds available to assist low and moderate income borrowers to finance the purchase of owner-occupied single family residences. As of June 30, 2004, almost 10,000 families have been helped through this program. The Corporation also has a program for housing development and ownership. The emphasis of the program has been on providing families with the opportunity to purchase homes at a cost within their

# Housing and Community Development Corporation of Hawaii

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

financial capabilities. The current focus of the program is on facilitating private development or preservation of rental and for-sale units for lower income families and special need groups. The Corporation has helped to provide almost 17,000 dwelling units under this program.

### Organization

The Corporation is administratively assigned to the State Department of Human Services. The Corporation's Board consists of nine members, six of whom are public members appointed by the Governor, and confirmed by the Senate of the State of Hawaii. At least one member of the Board is from each of the Counties of Honolulu, Hawaii, Maui, and Kauai. The Director of Business, Economic Development and Tourism; the Director of Human Services; and the Governor's Senior Policy Advisor are ex-officio voting members. All Corporation action is taken by the affirmative vote of at least five members.

### Financial Position and Performance

This section presents management's discussion and analysis of the Corporation's financial position and performance for the fiscal year ended June 30, 2004. It is presented as a narrative overview and analysis. Please read it in conjunction with the Corporation's financial statements, which follows this section.

### FINANCIAL HIGHLIGHTS

- Total assets of the Corporation decreased by \$343.9 million to \$1,226.0 million at June 30, 2004 from \$1,569.9 million at June 30, 2003. The Corporation uses proceeds from revenue bonds to make below market interest rate mortgage loans to persons and families of low to moderate income for the purchase of owner-occupied single-family and condominium dwellings, to provide interim construction loans and permanent financing of affordable rental housing projects; and to finance multifamily housing projects. The decrease in total assets of the Corporation is primarily due to the use of assets held by trustee to redeem \$215.6 million revenue bond principle. See Note J to the Corporation's financial statements for a description of revenue bond payable activities for the fiscal year ended June 30, 2004.
- The Corporation's total liabilities decreased by \$252.1 million to \$629.9 million at June 30, 2004 from \$881.9 million at June 30, 2003. See Statement of Net Assets on page 5-6.
- The Corporation's total net assets decreased by \$91.9 million to \$596.1 million at June 30, 2004 from \$688.0 million at June 30, 2003. \$89.6 million of the decrease is from the Corporation's business-type activities. See Statement of Activities on page 7.

## Housing and Community Development Corporation of Hawaii

### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

- Total revenues decreased by \$71.7 million to \$139.2 million at June 30, 2004 from \$211.0 million at June 30, 2003. \$59.9 million of the decrease is from the Corporation's business-type activities. See Statement of Activities on page 7.
- Total expenses increased by \$33.6 million to \$196.2 million at June 30, 2004 from \$162.6 million at June 30, 2003. \$40.4 million of the increase is from the Corporation's business-type activities. See Statement of Activities on page 7.
- Expenses exceeded revenues by \$56.9 million, a negative change of \$105.3 million from 2003. Transfers out increased by \$4.6 million during the same period, from \$25.7 million in 2003 to \$30.4 million in 2004. See Statement of Activities on page 7.
- A prior period adjustment of \$4.6 million reduced the Corporation's net assets at July 1, 2003 from \$688.0 million to \$683.4 million. The prior period adjustment was necessary to correct the liability for estimated future costs of land sold. During 2003, the total estimated development costs for the Villages of Kapolei were allocated using historical sales prices for sold parcels and current estimated sales prices for unsold parcels. Due to increases in current estimated sales prices relative to historical sales prices, this allocation basis resulted in a reduction of the estimated future cost of land sold as of June 30, 2003 as well as the related cost of land for the year then ended of \$4.6 million. The effect of the restatement was to increase the liability for the estimated future cost of land sold and decrease the net asset of the fund as of July 1, 2003. See Note S to the Corporation's financial statements for a description of the prior period adjustment for the fiscal year ended June 30, 2004.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements of the Corporation. The basic financial statements consist of three parts: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### Government-Wide Financial Statements and Analysis

The government-wide financial statements are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private-sector business.

The **Statement of Net Assets** present information on all the Corporation's assets and liabilities, with the difference between the two reported as total net assets. Over time, changes in total net assets may reflect changes in the financial position of the Corporation.

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

The **Statement of Activities** presents information showing how the Corporation's net assets changed during the most recent fiscal year. All changes in total net assets are reported when the relevant event occurs, regardless of the timing of the cash flow.

The government-wide financial statements distinguish functions of the Corporation that are principally supported by State of Hawaii appropriations or by HUD contributions (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user's fees and charges (business-type activities).

The government-wide financial statements can be found on pages 19-21 of this report.

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business-type Activities	Total
Current assets	\$ 14,605,326	\$ 193,870,916	\$ 208,476,242
Assets held by trustee	-	512,285,327	512,285,327
Capital assets	38,210,557	356,879,951	395,090,508
Other assets	-	110,150,738	110,150,738
Total assets	<u>\$ 52,815,883</u>	<u>\$ 1,173,186,932</u>	<u>\$ 1,226,002,815</u>
Current liabilities	\$ 3,318,006	\$ 53,638,678	\$ 56,956,684
Long-term liabilities	272,168	572,664,971	572,937,139
Total liabilities	3,590,174	626,303,649	629,893,823
Net assets:			
Invested in capital assets			
net of related debt	38,210,557	220,328,661	258,539,218
Restricted	-	519,637,775	519,637,775
Unrestricted	11,015,152	(193,083,153)	(182,068,001)
Total net assets	<u>49,225,709</u>	<u>546,883,283</u>	<u>596,108,992</u>
Total liabilities and net assets	<u>\$ 52,815,883</u>	<u>\$ 1,173,186,932</u>	<u>\$ 1,226,002,815</u>

The largest portion of the Corporation's net assets \$519.7 million represents resources that are subject to external restrictions on how they may be used. The Revenue Bond Funds trust indentures require cash and investments be held by a trustee. The assets held by trustees under revenue bond programs totaled \$512.3 million.

\$220.3 million of net assets reflects the Corporation's investment in capital assets, less any related outstanding debt used to acquire those assets. The amount of debt related to the investment in capital assets is \$136.5 million as of June 30, 2004.

Unrestricted net assets reflected a deficit balance of \$182.1 million. This was primarily due to revenue bonds payables in the business-type activities. The assets that support these liabilities are the assets held by trustees, which are reflected as restricted net assets.



Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

Statement of Net Assets

June 30, 2003

	Governmental Activities	Business-type Activities	Total
Current assets	\$ 18,980,467	\$ 275,369,867	\$ 294,350,334
Assets held by trustee	-	739,752,159	739,752,159
Capital assets	37,563,258	379,967,630	417,530,888
Other assets	-	118,275,118	118,275,118
Total assets	<u>\$ 56,543,725</u>	<u>\$ 1,513,364,774</u>	<u>\$ 1,569,908,499</u>
Current liabilities	\$ 4,746,575	\$ 85,490,777	\$ 90,237,352
Long-term liabilities	250,019	791,459,122	791,709,141
Total liabilities	4,996,594	876,949,899	881,946,493
Net assets:			
Invested in capital assets			
net of related debt	37,563,258	242,017,286	279,580,544
Restricted	-	746,854,963	746,854,963
Unrestricted	13,983,873	(352,457,374)	(338,473,501)
Total net assets	<u>51,547,131</u>	<u>636,414,875</u>	<u>687,962,006</u>
Total liabilities and net assets	<u>\$ 56,543,725</u>	<u>\$ 1,513,364,774</u>	<u>\$ 1,569,908,499</u>

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

Statement of Activities  
Year ended June 30, 2004

	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenue:			
Charges for services	\$ -	\$ 69,759,310	\$ 69,759,310
Operating grants and contributions	38,879,626	9,169,105	48,048,731
Capital grants and contributions	-	14,572,574	14,572,574
General revenues:			
State allotted appropriations, net of lapses	6,869,280	-	6,869,280
Total revenues	45,748,906	93,500,989	139,249,895
Total expenses *	47,900,877	148,289,457	196,190,334
Excess of revenues over expenses	(2,151,971)	(54,788,468)	(56,940,439)
Transfers	(169,451)	(30,188,079)	(30,357,530)
Change in net assets	(2,321,422)	(84,976,547)	(87,297,969)
Net assets-beginning	51,547,131	636,414,875	687,962,006
Prior period adjustment	-	(4,555,045)	(4,555,045)
Net assets at July 1, 2003, as restated	51,547,131	631,859,830	683,406,961
Net assets-end of year	\$ 49,225,709	\$ 546,883,283	\$ 596,108,992

\* See Statement of Program Expenses on page 9.

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

Statement of Activities  
Year ended June 30, 2003

	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenue:			
Charges for services	\$ -	\$ 73,081,621	\$ 73,081,621
Operating grants and contributions	46,805,102	56,214,619	103,019,721
Capital grants and contributions	-	24,141,939	24,141,939
General revenues:			
State allotted appropriations, net of lapses	10,730,153	-	10,730,153
Total revenues	57,535,255	153,438,179	210,973,434
Total expenses	54,705,625	107,919,420	162,625,045
Excess of revenues over expenses	2,829,630	45,518,759	48,348,389
Transfers	(238,466)	(25,477,823)	(25,716,289)
Change in net assets	2,591,164	20,040,936	22,632,100
Net assets-beginning	48,955,967	616,373,939	665,329,906
Net assets-end of year	\$ 51,547,131	\$ 636,414,875	\$ 687,962,006

**Governmental Activities.** Governmental activities decreased the Corporation's net assets by \$2.3 million to \$49.2 million at June 30, 2004 from \$51.5 million at June 30, 2003. The decrease is primarily due to a decrease in state allotted appropriations, net of lapses.

**Business-Type Activities.** Business-type activities decreased the Corporation's net assets by \$85.0 million (excluding the prior period adjustment mentioned earlier). The key elements of the decrease are as follows:

# Housing and Community Development Corporation of Hawaii

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

- The decrease in operating grants and contributions revenue of \$47.0 million. \$35.8 million of the decrease is due to a decrease in fair value of mortgage-backed securities of \$14.6 million in 2004 vs. the increase in fair value of mortgage-backed securities of \$21.2 million in 2003.
- The decrease in capital grants and contribution revenues of \$9.6 million to \$14.6 million in 2004 from \$24.2 million in 2003 is due to the completion of two HUD Comprehensive Grants in 2003.

### Statement of Program Expenses Year ended June 30,

	2004	2003
Governmental activities		
Homeless services and assistance program	\$ 4,977,916	\$ 5,475,497
Rental housing and assistance program	42,922,961	49,230,128
Total governmental activities expenses	47,900,877	54,705,625
Business-type activities		
Rental assistance program	41,517,433	39,337,650
Housing development program	46,664,456	2,216,667
Multi-family mortgage loan programs	3,048,763	3,086,599
Single-family mortgage loan program	28,743,857	38,110,372
Rental housing program	22,895,267	22,239,509
Others	5,419,681	2,928,623
Total business-type activities expenses	148,289,457	107,919,420
Total governmental expenses	\$ 196,190,334	\$ 162,625,045

The increase in housing development program expenses of \$44.4 million to \$46.7 million in 2004 from \$2.2 million is due to the provision for losses on real estate of \$41.9 million recognized in the Dwelling Unit Revolving Fund. See further discussion in the proprietary fund analysis.

### Fund Financial Statements and Analysis

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Corporation, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

requirements. All of the funds of the Corporation can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements help determine whether there are more or fewer financial resources that can be spent in the near future to finance the Corporation's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Corporation maintains 11 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the major governmental funds. The major governmental funds are the General Fund; Capital Projects; Section 8 Housing Voucher, and Section 8 Contract Administration special revenue funds. Data from the remaining special revenue funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 22-25 of this report.

As of June 30, 2004, the Corporation's governmental funds reported combined ending fund balances of \$11.4 million, a decrease of \$2.9 million in comparison to the combined fund balances of \$14.3 million on June 30, 2003. The decrease in the fund balance is primarily due to the completion of construction projects in the prior year.

**Proprietary Funds.** The Corporation maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. *Internal service fund* is an accounting device used to accumulate and allocate costs internally among the Corporation's various functions. The Corporation uses internal service funds to account for its central equipment and vehicles. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements. The proprietary fund financial statements provide separate information for the major enterprise funds (Federal Low Rent Program, Dwelling Unit Revolving Fund, Homes Revolving Fund, Rental Housing System Revenue Bond Fund, and Single Family Mortgage Purchase Revenue Bond Fund). The

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

remaining non-major enterprise funds are combined into a single aggregated presentation in the proprietary fund financial statements. The basic proprietary fund financial statements can be found on pages 26-34 of this report. The internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements.

Under the Federal Low Rent Program, the Corporation administers the operations of 5,398 federal public housing units. The U.S. Department of Housing and Urban Development (HUD) provides the Corporation with funds to operate, repair and maintain the public housing inventory. During 2004, the Corporation received \$24.9 million of HUD operating subsidy and grants, a decrease of \$10.1 million in subsidies from \$35.1 million in 2003. The decrease is due the completion of two HUD capital grants in the prior year.

The Dwelling Unit Revolving Fund accounts for state funds used for acquiring developing, selling, leasing and renting residential, commercial and industrial properties, providing mortgage and interim financing and rental income and sales proceeds and interest earnings from the financing and investment of such funds. Net assets decreased \$52.1 million to \$93.2 million at June 30, 2004 from \$145.3 million at June 30, 2003. The decrease is primarily due the following:

- In November 2004, the Corporation's Board authorized the Executive Director to finalize and execute a transfer agreement between the Corporation and the Department of Hawaiian Home Lands (DHHL) for Village 8 of the Villages of Kapolei, Villages of La'iopua, Villages of Leiali'i, Phases 1A and 1B, and the Waiahole Agricultural Park and Residential Lots Subdivision. The parcels of land are in various stages of development and have incurred varying costs. The Corporation established a provision for losses on real estate of \$41.9 million as it is likely that the Corporation will not recover its development costs for the parcels of land.
- During 2004, the Corporation recognized the remaining allocated project costs of \$6.9 million as operating transfers out to the state DHHL. In accordance with Act 95, SLH 1996, the Corporation transferred certain parcels of land to DHHL. The properties were conveyed in 1997 and \$11.8 million of allocated costs were charged against contributed capital as of June 30, 2003.
- Also, the Corporation transferred out \$15.0 million from the Dwelling Unit Revolving Fund to the State of Hawaii General Fund in accordance with Act 178, SLH 2003.

The Homes Revolving Fund was repealed in accordance with Act 178, SLH 2003, effective July 1, 2003. The functions and net assets (\$11.1 million) of the Home Revolving Fund were transferred to the Dwelling Unit Revolving Fund. The remaining cash of \$5.0 million was transferred out to the State of Hawaii General Fund.

Rental Housing System Revenue Bond Fund accounts for special funds to account for housing projects or systems of housing projects financed from the proceeds of bonds secured under the same

# Housing and Community Development Corporation of Hawaii

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

trust indenture. The fund deficit in net assets decreased \$1.5 million to (\$7.5) million at June 30, 2004 from (\$6.0) million at June 30, 2003. The decrease is primarily due a downward adjustment of lease rent totaling \$0.5 million.

The Single Family Mortgage Purchase Revenue Bond Fund accounts for the proceeds from the issuance of bonds used to make below-market interest rate mortgage loans and the repayment, interest, and earnings from such loans and investment of such funds. Net assets decreased \$11.4 million to \$44.6 million at June 30, 2004 from \$56.0 million. The decrease is primarily due to the net decrease in fair value of mortgage-backed securities of \$14.6 million.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Corporation's own programs. The accounting for Fiduciary funds is much like that used for proprietary funds. The fiduciary funds financial statements can be found on pages 35-36 of this report.

The private-purpose trust funds account for net assets held in a trustee capacity for others. The decrease in net assets of \$3.3 million to \$7.4 million at June 30, 2004 from \$10.7 million at June 30, 2003 is primarily due to capital outlays for the Kapolei High School.

### Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37-83 of this report.

### Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This section includes a budgetary comparison schedule, which includes a reconciliation between the statutory fund balance for budgetary purpose and the fund balance for the major governmental funds as presented in the governmental fund financial statements. The budgetary comparison schedule can be found on pages 85-87 of this report.

# Housing and Community Development Corporation of Hawaii

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

### **BUDGETARY ANALYSIS**

The general fund's original budget of \$7.1 million was not amended in 2004.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** The Corporation's investment in capital assets for its governmental and business-type activities as of June 30, 2004 amounts to \$395.1 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment and construction in progress. The total decrease in the Corporation's investment in capital was \$22.4 million (5.4%). The decrease is primarily due to the transfer of \$17.0 million for a certain parcel of land in the Dwelling Unit Revolving Fund to developments in progress. See Note H to the Corporation's financial statements for a description of capital asset activities for the fiscal year ended June 30, 2004.

#### Corporation's Capital Assets June 30, 2004

	Governmental Activities	Business-type Activities	Total
Land	\$ 2,373,410	\$ 44,173,187	\$ 46,546,597
Buildings and improvements	34,670,806	562,232,501	596,903,307
Equipment	1,096,574	11,032,899	12,129,473
Construction in progress	17,753,910	32,291,410	50,045,320
Total	55,894,700	649,729,997	705,624,697
Accumulated depreciation	(17,684,143)	(292,850,046)	(310,534,189)
Total capital assets, net	\$ 38,210,557	\$ 356,879,951	\$ 395,090,508



Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

Corporation's Capital Assets  
June 30, 2003

	Governmental Activities	Business-type Activities	Total
Land	\$ 2,373,410	\$ 61,548,938	\$ 63,922,348
Buildings and improvements	30,301,806	549,050,268	579,352,074
Equipment	1,096,574	10,860,771	11,957,345
Construction in progress	20,426,854	32,904,792	53,331,646
Total	54,198,644	654,364,769	708,563,413
Accumulated depreciation	(16,635,386)	(274,397,139)	(291,032,525)
Total capital assets, net	\$ 37,563,258	\$ 379,967,630	\$ 417,530,888

**Debt Administration.** Through June 30, 2004, \$1,941.5 million revenue bonds have been issued. The revenue bonds are payable from and secured solely by the revenues and other monies and assets of the Revenue Bond Funds and other assets of the Corporation pledged under the indentures. Revenue bonds payable decreased \$217.1 million to \$565.0 million at June 30, 2004 from \$782.1 million at June 30, 2003. The decrease is due to the maturities and redemption of bond principle, of which \$212.9 million were Single Family Mortgage Purchase revenue bonds. As defined in the bond indentures, under certain conditions, revenue bonds may be redeemed without premium prior to maturity. Included in the current year bond redemptions were early redemptions of \$203.4 million. The early redemptions were from mortgage principal payments and prepayments received from mortgagors. See Note J to the Corporation's financial statements for the description of revenue bonds payable transactions during the fiscal year ended June 30, 2004.

During the 2004 year, Moody's Investors Service's rating of the Corporation continued to be A1 with a negative outlook. The Corporation's bonds ratings, for the Single Family Mortgage Purchase Revenue Bond program were as follows:

- Standard & Poor's Rating Services: AAA
- Moody's Investors Service: Aaa
- Fitch Ratings: AAA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

**CURRENTLY KNOW FACTS, DECISIONS, OR CONDITIONS**

HUD established a system for rating the performance of public housing agencies with which it works with throughout the country in managing and operating the federal public housing programs. The system is known as the Public Housing Assessment System of "PHAS" and measures performance under four categories: (i) physical, (ii) financial, (iii) management operations and (iv) resident survey. For the fiscal years (ending September 30, 2000 through 2002, the Corporation had been deemed a "Standard Performer" under PHAS.

However, in June 2004, HUD notified the Corporation that it had been designated to be an "overall troubled agency" for its fiscal year ending June 30, 2003. HUD is concerned with property management issues, including allowing the use of outdated forms; failure to check for verification of tenant income or citizenship; vacant unit turnaround time; and lease enforcement. The Corporation was also faulted for its failure to submit acceptable audited financial information within the timeframe established by the federal authorities. The Corporation has now furnished to HUD all audited financial information for its fiscal year ending June 30, 2003, and the Corporation has taken action which it believes will prevent delays in the preparation of audited financial information for fiscal year 2004 and thereafter.

As a result of the Corporation being designated as an overall troubled agency, HUD prepared a Memorandum of Agreement (MOA) which identifies specific and detailed performance targets and strategies for the Corporation to implement to improve its performance under the four categories included in PHS in the operation of federal housing programs and the areas of weakness noted in the Assessment. Under the MOA, HUD will provide technical assistance to the Corporation to assist it in achieving the performance targets and the Corporation will provide monthly, quarterly and annual progress reports to HUD. Failure of the Corporation to achieve the targets established by the MOA could lead to additional sanctions being imposed or recommended by HUD and could impact future federal financial awards and assistance. The Corporation has committed to take the necessary action to achieve the performance targets established in the MOA.

On July 1, 2004, the Corporation redeemed \$23.6 million of outstanding revenue bonds from the Single Family Mortgage Purchase Revenue Bond Fund, including \$17.7 million of early redemptions.

In accordance with Act 52, SLH 2004 provided for the transfer of \$10.0 million from the Dwelling Unit Revolving Fund to the state general fund.

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

In October 2004, the Corporation consolidated the Rental Housing System Revenue Bond Fund and the State of Hawaii Affordable Rental Program (SHARP) Fund and issued revenue bonds for the combined program of \$107.1 million. The revenue bond proceeds were used to redeem the outstanding revenue bonds of the Rental Housing System Revenue Bond Fund and the SHARP Fund.



KARN S YEE MURAKAMI HANASHIRO CHOY

## Report of Independent Public Accountants

Board of Directors  
Housing and Community Development Corporation of Hawaii

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and aggregate other fund balances of governmental funds and proprietary funds all as listed under “basic financial statements” in the accompanying table of contents of Housing and Community Development Corporation of Hawaii (Corporation) as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Corporation’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note A, the financial statements of the Corporation, are intended to present the financial position, changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate other fund information of the State of Hawaii that is attributable to the transactions of the Corporation. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2004, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate other fund information of government funds and proprietary funds of the Corporation as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management’s Discussion and Analysis on pages 1 to 16 and Budgetary Comparison Schedules on pages 85 to 87 are not a required part of the basic financial statements but are supplementary

Board of Directors  
Housing and Community Development Corporation of Hawaii

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on Management's Discussion and Analysis or on the Budgetary Comparison Schedules.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements taken as a whole. The supplementary information as listed in the accompanying contents is presented for purposes of additional analysis rather than to report the financial position, changes in financial position, and cash flows, where applicable, of the individual funds and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KMH LLP

KMH LLP

Honolulu, Hawaii  
December 1, 2004

Housing and Community Development Corporation of Hawaii

GOVERNMENT-WIDE  
STATEMENT OF NET ASSETS

June 30, 2004

ASSETS	Governmental Activities	Business-type Activities	Total
Current assets			
Cash (notes A7 and C)	\$ 9,674,484	\$ 139,568,298	\$ 149,242,782
Investments (notes A8 and D)	750,000	4,450,000	5,200,000
Receivables			
Mortgage loans (note E)	-	1,758,639	1,758,639
Accrued interest	616	5,365,048	5,365,664
Tenant receivables, less allowance for doubtful receivables of \$5,515,485	-	1,117,008	1,117,008
Other	57,605	1,587,791	1,645,396
	<u>58,221</u>	<u>9,828,486</u>	<u>9,886,707</u>
Internal balances			
Due from other State of Hawaii Departments	2,537,671	(2,537,671)	-
Due from HUD	-	1,155,846	1,155,846
Inventories (note A9 and M)	227,021	3,451,177	3,678,198
Developments in progress and dwelling units	-	36,210,359	36,210,359
Materials and supplies	-	684,122	684,122
Net investment in direct financing lease (note F)	-	460,545	460,545
Prepaid expenses and other assets	1,357,929	249,395	1,607,324
Deposits held in trust	-	104,666	104,666
Deferred bond discount and issuance costs	-	245,693	245,693
Total current assets	<u>14,605,326</u>	<u>193,870,916</u>	<u>208,476,242</u>
Assets held by trustees under revenue bond programs			
Cash	-	73,745	73,745
Investments (notes A8, D, G and K)	-	512,211,582	512,211,582
		<u>512,285,327</u>	<u>512,285,327</u>
Investments (notes A8 and D)			
Mortgage loans, net of current portion (note E)	-	6,756,529	6,756,529
Notes and loans	-	74,152,712	74,152,712
Other receivables	-	426,100	426,100
Restricted deposits and funded reserves	-	701,380	701,380
Net investment in financing lease, net of current portion (note F)	-	7,352,448	7,352,448
Deferred bond issuance costs (note A12)	-	16,840,731	16,840,731
		<u>3,920,838</u>	<u>3,920,838</u>
Capital assets, less accumulated depreciation (notes A5, H and L)	<u>38,210,557</u>	<u>356,879,951</u>	<u>395,090,508</u>
TOTAL ASSETS	<u>\$ 52,815,883</u>	<u>\$ 1,173,186,932</u>	<u>\$ 1,226,002,815</u>

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

GOVERNMENT-WIDE  
STATEMENT OF NET ASSETS

June 30, 2004

LIABILITIES AND NET ASSETS

	Governmental Activities	Business-type Activities	Total
Current liabilities			
Accounts payable	\$ 1,214,999	\$ 5,057,962	\$ 6,272,961
Accrued expenses	-	12,638,401	12,638,401
Interest (notes I and J)	367,267	3,003,841	3,371,108
Other	1,496,062	(1,496,062)	-
Internal balances	-	5,598,604	5,598,604
Due to State of Hawaii, including Office of Hawaiian Affairs (note M)	-	23,346	23,346
Due to HUD	239,678	2,177,596	2,417,274
Security deposits	-	38,247	38,247
Note payable (note I)	-	114,308	114,308
Mortgage payable (note I)	-	9,200,000	9,200,000
Revenue bonds payable, less deferred refunding cost (notes J and K)	-	9,245	9,245
Deferred income	-	599,814	599,814
Deferred commitment fees	-	242,263	242,263
Deferred gain on sale of units and land	-	16,431,113	16,431,113
Estimated future costs of land sold (note M)	-	-	-
Total current liabilities	3,318,006	53,638,678	56,956,684
Deferred commitment fees, net of current portion	-	2,541,893	2,541,893
Arbitrage rebate payable (note J)	-	2,604,368	2,604,368
Note payable, net of current portion (note I)	-	4,050,088	4,050,088
Mortgage payable, net of current portion (note I)	-	6,338,346	6,338,346
Revenue bonds payable, less deferred refunding costs, net of current portion (notes J and K)	-	555,751,222	555,751,222
Others	272,168	1,379,054	1,651,222
Commitments and contingencies (notes L, M, N, O and P)	-	-	-
Net assets			
Invested in capital assets, net of related debt	38,210,557	220,328,661	258,539,218
Restricted by legislation and contractual agreements	-	519,637,775	519,637,775
Unrestricted	11,015,152	(193,083,153)	(182,068,001)
Total net assets	49,225,709	546,883,283	596,108,992
TOTAL LIABILITIES AND NET ASSETS	\$ 52,815,883	\$ 1,173,186,932	\$ 1,226,002,815

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

GOVERNMENT-WIDE  
STATEMENT OF ACTIVITIES

Year ended June 30, 2004

Functions/Programs	Program Revenues				Net (expense) revenue and changes in net assets		
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
<b>Governmental activities</b>							
Homeless services and assistance program	\$ 4,977,916	\$ -	\$ 538,386	\$ -	\$ (4,439,530)	\$ -	\$ (4,439,530)
Rental housing and assistance program	42,922,961	-	38,341,240	-	(4,581,721)	-	(4,581,721)
<b>Total governmental activities</b>	47,900,877	-	38,879,626	-	(9,021,251)	-	(9,021,251)
<b>Business-type activities</b>							
Rental assistance program	41,517,433	15,294,020	9,931,813	14,572,574	-	(1,719,026)	(1,719,026)
Housing development program	46,664,456	3,695,092	1,761,159	-	-	(41,298,205)	(41,298,205)
Multi-family mortgage loan programs	3,048,763	6,199,495	568,206	-	-	3,718,632	3,718,632
Single-family mortgage loan program	28,741,857	21,038,698	(3,791,338)	-	-	(11,496,497)	(11,496,497)
Rental housing program	22,895,267	18,677,671	631,278	-	-	(3,586,318)	(3,586,318)
Others	5,419,681	4,944,634	67,993	-	-	(407,054)	(407,054)
<b>Total business-type activities</b>	148,289,457	69,759,310	9,169,105	14,572,574	-	(54,788,468)	(54,788,468)
<b>Total government-wide</b>	<u>\$ 196,190,334</u>	<u>\$ 69,759,310</u>	<u>\$ 48,048,731</u>	<u>\$ 14,572,574</u>	<u>(9,021,251)</u>	<u>(54,788,468)</u>	<u>(63,809,719)</u>
State allotted appropriations, net of lapses					6,869,280	-	6,869,280
Transfers					(169,451)	(20,188,079)	(20,357,529)
<b>Total general revenues and transfers</b>					<u>6,699,829</u>	<u>(20,188,079)</u>	<u>(23,488,250)</u>
<b>Change in net assets</b>					<u>(2,321,423)</u>	<u>(94,575,547)</u>	<u>(97,297,969)</u>
Net assets at July 1, 2003, as previously stated					51,547,131	636,414,875	687,962,006
Prior period adjustment					-	(4,555,046)	(4,555,046)
Net assets at July 1, 2003, as restated					51,547,131	631,859,829	683,406,961
Net assets at June 30, 2004					<u>\$ 49,225,709</u>	<u>\$ 546,882,283</u>	<u>\$ 596,108,992</u>

The accompanying notes are an integral part of this statement



Housing and Community Development Corporation of Hawaii

GOVERNMENTAL FUNDS  
BALANCE SHEET

June 30, 2004

ASSETS	Section 8					Total	
	General	Capital Projects	Housing Voucher	Contract Administration	Other Funds	Governmental Funds	
Current assets							
Cash	\$ 940,935	\$ 5,440,275	\$ 2,304,539	\$ 988,382	\$ 353	\$ 9,674,484	
Investments	-	-	-	750,000	-	750,000	
Accrued interest receivable	-	-	-	616	-	616	
Other receivables	-	-	5,846	51,759	-	57,605	
Due from other funds	-	-	1,705,000	832,671	-	2,537,671	
Due from HUD	-	-	-	105,410	121,611	227,021	
Prepaid expenses and other assets	62,990	-	1,294,939	-	-	1,357,929	
<b>TOTAL ASSETS</b>	<b>\$ 1,003,925</b>	<b>\$ 5,440,275</b>	<b>\$ 5,310,324</b>	<b>\$ 2,728,838</b>	<b>\$ 121,964</b>	<b>\$ 14,605,326</b>	
<b>LIABILITIES AND FUND BALANCE</b>							
Current liabilities							
Accounts payable	\$ 324,381	\$ 771,636	\$ -	\$ -	\$ 118,982	\$ 1,214,999	
Accrued expenses	37,472	-	202,681	21,418	-	261,571	
Due to other funds	890	-	1,455,160	37,383	2,629	1,496,062	
Due to HUD	-	-	236,567	2,758	353	239,678	
Deferred income	-	-	-	-	-	-	
<b>Total liabilities</b>	<b>362,743</b>	<b>771,636</b>	<b>1,894,408</b>	<b>61,559</b>	<b>121,964</b>	<b>3,212,310</b>	
Fund balances - unrestricted							
Reserved	641,182	4,668,639	-	-	-	5,309,821	
Unreserved	-	-	3,415,916	2,667,279	-	6,083,195	
<b>Total fund balances</b>	<b>641,182</b>	<b>4,668,639</b>	<b>3,415,916</b>	<b>2,667,279</b>	<b>-</b>	<b>11,393,016</b>	
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,003,925</b>	<b>\$ 5,440,275</b>	<b>\$ 5,310,324</b>	<b>\$ 2,728,838</b>	<b>\$ 121,964</b>	<b>\$ 14,605,326</b>	

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE TO THE  
STATEMENT OF NET ASSETS

June 30, 2004

Total fund balance - governmental funds		\$	11,393,016
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	\$	38,210,557	
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds		<u>(377,864)</u>	<u>37,832,693</u>
Net assets of governmental activities		\$	<u>49,225,709</u>

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year ended June 30, 2004

	General	Capital Projects	Housing Voucher	Section 8 Contract Administration	Other Funds	Total Governmental Funds
<b>Revenues</b>						
Intergovernmental – HUD annual contributions and others	\$ -	\$ 214,690	\$ 17,708,846	\$ 18,621,105	\$ 2,318,540	\$ 38,863,181
State allotted appropriations, net of lapsed funds	7,056,128	(186,848)	-	-	-	6,869,280
Interest	-	-	1,398	15,045	-	16,443
<b>Total revenues</b>	<b>7,056,128</b>	<b>27,842</b>	<b>17,710,244</b>	<b>18,636,150</b>	<b>2,318,540</b>	<b>45,748,904</b>
<b>Expenditures</b>						
Current						
Housing assistance payments	766,613	-	15,664,128	17,959,542	84,964	34,475,247
Homeless services	4,674,978	-	-	-	-	4,674,978
Personal services	568,467	-	1,671,685	574,442	58,242	2,872,834
Administration	80,952	2	544,109	111,088	2,175,334	2,911,485
Professional services	28,870	-	52,658	30,927	-	112,455
Security	461,118	-	1,740	463	-	463,321
Repairs and maintenance	294,668	-	33,637	3,203	-	331,508
Utilities	1,005	-	-	-	-	1,005
Insurance	997	-	2,480	1,781	-	5,258
Other	61	-	-	937	-	998
Capital outlays	7,712	2,651,285	-	5,892	-	2,664,889
<b>Total expenditures</b>	<b>6,885,441</b>	<b>2,651,287</b>	<b>17,970,435</b>	<b>18,688,275</b>	<b>2,318,540</b>	<b>48,513,978</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>170,687</b>	<b>(2,623,445)</b>	<b>(260,191)</b>	<b>(52,125)</b>	<b>-</b>	<b>(2,765,074)</b>
<b>Other financing uses</b>						
Transfers out	169,451	-	-	-	-	169,451
<b>Total other financing uses</b>	<b>169,451</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>169,451</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>1,236</b>	<b>(2,623,445)</b>	<b>(260,191)</b>	<b>(52,125)</b>	<b>-</b>	<b>(2,934,525)</b>
Fund balance at July 1, 2003	639,946	7,292,084	3,676,107	2,719,404	-	14,327,541
Fund balance at June 30, 2004	\$ 641,182	\$ 4,668,639	\$ 3,415,916	\$ 2,667,279	\$ -	\$ 11,393,016

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

RECONCILIATION OF THE CHANGE IN FUND  
BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2004

Net change in fund balances - total governmental funds	\$	(2,934,525)
--	----	-------------

Amounts reported for governmental activities in the  
statement of activities are different because:

Governmental funds report capital outlays as  
expenditures. In the statement of activities, the  
cost of those assets is allocated over their  
estimated useful lives and reported as  
depreciation expense. This is the amount  
by which capital outlays exceeded  
depreciation during the year.

\$	647,299
----	---------

Long-term compensated absences reported in the  
statement of activities do not require the use of  
current financial resources and therefore are not  
reported as expenditures in governmental funds

(34,196)
----------

613,103
---------

Change in net assets of governmental activities

<u>\$</u>	<u>(2,321,422)</u>
-----------	--------------------

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS

June 30, 2004

ASSETS	Federal Low Rent Program	Dwelling Unit Revolving Fund	Homes Revolving Fund	Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Current assets								
Cash (notes A7 and C)	\$ 12,755,630	\$ 70,651,383	\$ -	\$ 1,219,945	\$ -	\$ 53,694,122	\$ 138,321,080	\$ 1,247,218
Investments (notes A8 and D)	4,450,000	-	-	-	-	-	4,450,000	-
Receivables								
Mortgage loans (note E)	-	277,578	-	-	996,860	484,201	1,758,639	-
Accrued interest	2,692	621,315	-	8,695	2,873,160	1,854,700	5,360,562	4,486
Tenant receivables, less allowance for doubtful accounts of \$5,515,485	714,522	16,290	-	50,750	-	335,446	1,117,008	-
Other	192,314	512,294	-	548,244	-	264,093	1,516,945	-
	909,538	1,427,477	-	607,689	3,870,020	2,938,440	9,753,154	4,486
Due from other funds	3,400,485	433,496	-	-	-	5,646,770	9,570,751	-
Due from other State of Hawaii Departments	-	1,155,000	-	-	-	846	1,155,846	-
Due from HUD	3,430,867	-	-	-	-	20,310	3,451,177	-
Inventories (note A9)	-	36,210,359	-	-	-	-	36,210,359	-
Materials and supplies	531,530	-	-	-	-	152,592	684,122	-
Net investment in financing lease (note F)	-	-	-	-	-	460,545	460,545	-
Prepaid expenses and other assets	-	29,952	-	31,990	15,559	171,894	249,395	-
Deposits held in trust	-	-	-	-	-	104,666	104,666	-
Deferred bond discount and issuance costs	-	-	-	55,617	145,517	44,559	245,693	-
Total current assets	25,568,040	109,907,667	-	1,915,241	4,031,096	63,234,744	204,656,788	1,251,704
Assets held by trustees under Revenue Bond Programs								
Cash	-	-	-	20,244	9,190	44,311	73,745	-
Investments (notes A8, D, G and K)	-	-	-	28,810,468	430,067,005	53,394,109	512,211,582	-
	-	-	-	28,830,712	430,076,195	53,378,420	512,285,327	-
Investments	-	-	-	-	-	6,756,529	6,756,529	-
Mortgage loans, net of current portion (note E)	-	576,236	-	-	15,128,390	58,448,086	74,152,712	-
Notes and loans	-	-	-	-	-	426,100	426,100	-
Other receivables	-	-	-	-	-	701,380	701,380	-
Advances to other funds	-	-	-	-	-	325,000	325,000	-
Restricted deposits and funded reserves	-	-	-	-	-	7,352,448	7,352,448	-
Net investment in financing lease, net of current portion	-	-	-	-	-	16,840,731	16,840,731	-
Deferred bond discount and issuance costs, net of current portion (note A12)	-	-	-	651,013	2,588,289	681,536	3,920,838	-
Capital assets, less accumulated depreciation (notes A5, H and I)	184,622,858	6,302,540	-	53,038,795	5,367	112,845,966	356,815,526	64,425
TOTAL ASSETS	\$ 210,190,898	\$ 116,786,443	\$ -	\$ 84,435,761	\$ 451,829,337	\$ 320,990,940	\$ 1,184,233,379	\$ 1,316,129

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS

June 30, 2004

LIABILITIES AND NET ASSETS

	Federal Low Rent Program	Dwelling Unit Revolving Fund	Homes Revolving Fund	Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
<b>Current liabilities</b>								
Accounts payable	\$ 3,587,136	\$ 528,990	\$ -	\$ 485,332	\$ 44,402	\$ 412,102	\$ 5,057,962	\$ -
Accrued expenses	-	-	-	-	-	-	-	-
Interest (notes I and J)	-	-	-	-	-	-	-	-
Other	3,052,994	358,257	-	444,549	10,956,669	1,237,183	12,638,401	-
Due to other funds	1,575,439	-	-	24,876	104,924	841,844	4,382,895	-
Due to State of Hawaii, including Office of Hawaiian Affairs (note M)	-	5,573,604	-	96,335	74,053	9,120,687	10,866,514	-
Due to HUD	-	-	-	-	-	25,000	5,598,604	-
Security deposits	-	-	-	-	-	23,346	23,346	-
Note payable (note I)	650,596	52,458	-	594,484	-	880,058	2,177,596	-
Mortgage payable (note I)	-	38,247	-	-	-	-	38,247	-
Revenue bonds payable, less deferred refunding cost (notes J and K)	-	-	-	-	-	114,308	114,308	-
Deferred income	-	-	-	1,675,000	6,455,000	1,070,000	9,200,000	-
Deferred commitment fees	-	4,407	-	-	-	4,838	9,245	-
Deferred gain on sale of units and land	-	242,263	-	-	599,814	-	599,814	-
Estimated future costs of land sold	-	16,431,113	-	-	-	-	242,263	-
	-	-	-	-	-	-	16,431,113	-
<b>Total current liabilities</b>	<b>8,866,165</b>	<b>23,229,339</b>	<b>-</b>	<b>3,320,576</b>	<b>18,234,862</b>	<b>13,729,366</b>	<b>67,380,308</b>	<b>-</b>
<b>Net assets</b>								
Deferred commitment fees, net of current portion	-	-	-	-	2,541,893	-	2,541,893	-
Arbitrage rebate payable (note J)	-	-	-	-	2,579,218	-	2,604,368	-
Note payable, net of current portion (note I)	-	378,761	-	23,456	-	1,694	4,050,088	-
Mortgage payable, net of current portion (note I)	-	-	-	-	-	3,671,327	6,338,346	-
Revenue bonds payable, less deferred refunding cost, net of current portion (notes J and K)	-	-	-	-	-	6,338,346	6,338,346	-
Commitments and contingencies (notes L, M, N, O and P)	-	-	-	88,610,000	383,919,373	83,221,849	555,751,222	-
<b>Net assets</b>	<b>184,622,858</b>	<b>5,885,532</b>	<b>-</b>	<b>(36,539,575)</b>	<b>5,367</b>	<b>66,290,054</b>	<b>220,264,236</b>	<b>64,425</b>
Invested in capital assets, net of related debt	-	-	-	28,830,712	430,076,195	60,730,868	519,637,775	-
Restricted by legislation and contractual agreements	16,701,875	87,292,811	-	190,592	(385,527,571)	87,007,436	(194,334,857)	1,251,704
Unrestricted	201,324,733	93,178,343	-	(7,518,271)	44,553,991	214,028,358	545,567,154	1,316,129
<b>Total net assets</b>	<b>\$ 210,190,898</b>	<b>\$ 116,786,443</b>	<b>\$ -</b>	<b>\$ 84,435,761</b>	<b>\$ 451,829,337</b>	<b>\$ 320,990,940</b>	<b>\$ 1,184,233,379</b>	<b>\$ 1,316,129</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>								

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

RECONCILIATION OF THE PROPRIETARY FUNDS NET ASSETS  
TO THE STATEMENT OF NET ASSETS

Year ended June 30, 2004

Total net assets of proprietary funds	\$ 545,567,154
Amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities	<u>1,316,129</u>
Net assets of business-type activities	<u><u>\$ 546,883,283</u></u>

The accompanying notes are an integral part of these statements.

Housing and Community Development Corporation of Hawaii

PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year ended June 30, 2004

	Federal Low Rent Program	Dwelling Unit Revolving Fund	Homes Revolving Fund	Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Operating revenues								
Interest on mortgages, notes, loans and mortgage-backed securities (note J)	\$ -	\$ 91,449	\$ -	\$ -	\$ 21,005,459	\$ 2,926,822	\$ 24,023,730	\$ -
Net decrease in fair value of mortgage-backed securities (note A8)	-	-	-	-	(14,586,428)	-	(14,586,428)	-
Sales of land	-	1,486,274	-	-	-	-	1,486,274	-
Sales of units	-	155,141	-	-	-	-	155,141	-
Rental	13,531,582	984,193	-	9,669,784	-	8,183,481	32,369,040	44,231
Conveyance tax	-	-	-	-	-	4,608,054	4,608,054	-
Other	456,382	888,035	-	439,680	31,184	5,301,790	7,117,071	-
Total operating revenues	13,987,964	3,605,092	-	10,109,464	6,450,215	21,020,147	55,172,882	44,231
Operating expenses								
Provision for losses on real estate (note M)	-	41,938,000	-	-	-	-	41,938,000	-
Cost of land and units sold (note M)	-	988,174	-	-	-	-	988,174	-
Project	5,209,581	764,707	-	3,885,793	-	4,431,640	14,291,721	-
Personal services	10,801,148	1,344,185	-	171,843	225,771	3,357,595	15,900,542	-
Depreciation	10,715,533	500,038	-	3,295,233	268	4,026,349	18,537,421	41,407
Housing assistance payments	700	-	-	-	-	1,940,329	1,941,029	-
Administration	2,447,535	413,044	-	88,182	41,683	886,143	3,876,587	-
Provision for losses	-	205,811	-	633,753	-	255,124	1,094,688	-
Loan servicing fees	-	-	-	-	80,635	-	80,635	-
Professional services	258,069	262,189	-	20,728	21,025	210,853	772,864	2,708
Mortgage insurance	-	-	-	-	22,751	5,770	28,521	-
Security	661,230	489	-	-	87	50,613	712,571	-
Insurance	262,232	4,341	-	152	144	28,129	295,031	-
Repairs and maintenance	1,569,667	163,799	-	3,620	2,377	831,515	2,570,978	-
Utilities	6,429,131	-	-	1,889	153	1,125,463	7,556,636	-
Payments in lieu of taxes	813,252	-	-	-	-	-	813,252	-
Capital expenditures	285,498	22,207	-	51,596	564	81,632	441,497	183,213
Interest expense	-	-	-	-	25,636,293	1,859,632	27,495,925	-
Other	3,301	9,736	-	75,461	6,940	229,766	325,204	-
Total operating expenses	39,456,877	46,616,720	-	8,228,435	26,038,691	19,320,553	139,661,276	227,328
Operating (loss) income carried forward	\$ (25,468,913)	\$ (43,011,628)	\$ -	\$ 1,881,029	\$ (19,588,476)	\$ 1,699,594	\$ (84,488,394)	\$ (183,097)

The accompanying notes are an integral part of this statement.



Housing and Community Development Corporation of Hawaii

PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - (continued)

Year ended June 30, 2004

	Federal Low Rent Program	Dwelling Unit Revolving Fund	Homes Revolving Fund	Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Operating (loss) income brought forward	\$ (25,468,913)	\$ (43,011,628)	\$ -	\$ 1,881,029	\$ (19,588,476)	\$ 1,699,594	\$ (84,488,394)	\$ (183,097)
Nonoperating revenues (expenses)								
Interest income - investments	104,880	1,761,161	-	175,947	10,795,090	2,843,488	15,680,566	33,938
Net decrease in fair value of investments	-	-	-	-	-	(2,412,110)	(2,412,110)	-
HUD operating subsidy and others	24,941,895	-	-	-	-	-	24,941,895	-
Interest expense	(149)	(47,736)	-	(3,114,943)	-	(1,804,638)	(4,967,466)	-
Letter of credit fees	-	-	-	(367,007)	-	(153,716)	(520,723)	-
Trustee fees	-	-	-	(172,245)	(87,738)	(63,316)	(323,299)	-
Amortization of deferred bond issuance costs	-	-	-	(7,824)	(1,747,633)	(45,172)	(1,800,629)	-
Arbitrage rebate	-	-	-	-	(866,647)	-	(866,647)	-
Loss on disposal of property and equipment	-	-	-	-	-	(260)	(260)	-
Other revenues	-	-	-	67,605	-	50,153	117,758	-
Net nonoperating revenues (expenses)	25,046,626	1,713,425	-	(3,418,467)	8,093,072	(1,585,571)	29,849,085	33,938
Income (loss) before transfers	(422,287)	(41,298,203)	-	(1,537,438)	(11,495,404)	114,023	(54,639,309)	(149,159)
Operating transfers in	-	11,133,546	-	-	-	169,451	11,302,997	-
Operating transfers out	-	(21,923,461)	(16,162,923)	-	-	(3,404,692)	(41,491,076)	-
Net operating transfers	-	(10,789,915)	(16,162,923)	-	-	(3,235,241)	(30,188,079)	-
CHANGE IN NET ASSETS	(422,287)	(52,088,118)	(16,162,923)	(1,537,438)	(11,495,404)	(3,121,218)	(84,827,386)	(149,159)
Fund net assets at July 1, 2003, as previously stated	201,747,020	145,266,461	20,717,968	(5,980,833)	56,049,395	217,149,576	634,949,587	1,465,288
Prior period adjustment	-	-	(4,555,045)	-	-	-	(4,555,045)	-
Fund net assets at July 1, 2003, as restated	201,747,020	145,266,461	16,162,923	(5,980,833)	56,049,395	217,149,576	630,394,542	1,465,288
Fund net assets at June 30, 2004	\$ 201,324,733	\$ 93,178,343	\$ -	\$ (7,518,271)	\$ 44,553,991	\$ 214,028,358	\$ 545,567,154	\$ 1,316,129

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

RECONCILIATION OF THE CHANGE IN FUND  
BALANCES OF PROPRIETARY FUNDS  
TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2004

Net change in fund balances - total enterprise funds	\$ (84,827,388)
Net change in fund balances - internal service funds	<u>(149,159)</u>
CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES	<u>\$ (84,976,547)</u>

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS

Year ended June 30, 2004

	Federal Low Rent Program	Dwelling Unit Revolving Fund	Homes Revolving Fund	Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash flows from operating activities:								
Cash received from renters	\$ 12,928,324	\$ 972,677	\$ -	\$ 9,703,345	\$ -	\$ 7,938,416	\$ 31,542,762	\$ 44,231
Cash received from borrowers	-	-	-	-	-	-	-	-
Principal repayments	-	1,850,240	-	-	7,229,131	5,990,519	15,069,890	-
Interest income	-	97,581	-	-	18,394,611	2,069,219	20,561,411	-
Cash received from net investment in financing lease	-	-	-	-	-	1,233,399	1,233,399	-
Cash received from sale of land	-	1,622,402	-	-	-	-	1,622,402	-
Cash received for conveyance taxes	-	-	-	-	-	4,608,054	4,608,054	-
Cash received for payments on mortgage-backed securities	-	-	-	-	126,131,051	-	126,131,051	-
Cash payments for loan originations	-	(1,395,425)	-	-	-	(10,981,533)	(12,376,958)	-
Cash payment for acquisition of mortgage-backed securities	-	-	-	-	(485,669)	-	(485,669)	-
Cash payments for interest	-	-	-	-	(31,553,229)	(1,873,650)	(33,426,879)	-
Cash payments to employees	(16,010,729)	(1,545,995)	-	(171,843)	(231,302)	(3,321,110)	(21,280,979)	-
Cash payments to suppliers	(12,117,033)	(4,275,801)	-	(4,740,274)	(269,670)	(9,717,716)	(31,120,494)	(185,921)
Cash receipts from (payments to) other funds	185,525	7,415	-	50,403	(20,359)	772,898	995,882	-
Payment in lieu of taxes	(813,252)	-	-	-	-	(813,252)	-	-
Other cash receipts (payments)	1,795,950	2,953,295	-	432,301	31,184	5,303,891	10,513,621	-
Net cash (used in) provided by operating activities	(14,031,215)	286,389	-	5,273,932	119,225,748	2,019,387	112,774,241	(141,690)
Cash flows from noncapital financing activities:								
Arbitrage rebate liability paid	-	-	-	-	(4,561,387)	-	(4,561,387)	-
Principal paid on revenue bond maturities and redemptions	-	-	-	-	(212,880,000)	-	(212,880,000)	-
Bond insurance costs paid	-	-	-	-	-	-	-	-
Interest paid to the Department of Budget and Finance	(149)	-	-	-	-	(15,217)	(15,366)	-
HUD operating subsidy and others received	29,274,620	-	-	-	-	29,274,620	29,274,620	-
Operating transfers in	-	-	-	-	-	169,451	169,451	-
Advances from other funds	-	-	-	-	-	-	-	-
Operating transfers out	-	(15,000,000)	(5,029,377)	-	-	(3,407,114)	(23,436,491)	-
Net cash provided by (used in) noncapital financing activities	29,274,471	(15,000,000)	(5,029,377)	-	(217,441,387)	(3,252,880)	(211,449,173)	-
Cash flows from capital and related financing activities:								
Acquisition of property and equipment	-	-	-	(12,407)	-	(45,811)	(58,218)	-
Arbitrage rebate liability paid	-	-	-	-	-	-	-	-
Principal paid on revenue bond maturities and redemptions	-	-	-	(1,455,000)	-	(1,252,437)	(2,707,437)	-
Interest paid on revenue bonds	-	-	-	(3,169,594)	-	(1,614,219)	(4,783,813)	-
Principal payments on notes payable	-	(37,866)	-	-	-	-	(37,866)	-
Principal payments on mortgage loans	-	(56,256)	-	-	-	(106,905)	(106,905)	-
Payments of interest	-	-	-	-	-	(179,955)	(236,211)	-
Payments for acquisition of property and equipment	(12,797,018)	-	-	-	-	-	(12,802,652)	(6,488)
Proceeds on sale of property and equipment	200	-	-	-	(5,634)	-	200	-
Net cash used in capital and related financing activities	(12,796,818)	(94,122)	-	(4,637,001)	(5,634)	(3,199,327)	(20,732,902)	(6,488)
Subtotal carried forward	\$ 2,446,438	\$ (14,807,733)	\$ (5,029,377)	\$ 636,931	\$ (98,221,273)	\$ (4,432,820)	\$ (119,407,834)	\$ (148,178)

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS - (continued)

Year ended June 30, 2004

	Federal Low Rent Program	Dwelling Unit Revolving Fund	Homes Revolving Fund	Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Subtotal brought forward	\$ 2,446,438	\$ (14,807,733)	\$ (5,029,377)	\$ 636,931	\$ (98,221,273)	\$ (4,432,820)	\$ (119,407,834)	\$ (148,178)
Cash flows from investing activities:								
Purchases of investments	(18,600,000)	-	-	(35,123,599)	(136,748,963)	(216,000)	(190,688,562)	-
Proceeds from maturities of investments	19,500,000	-	-	35,130,617	233,104,749	300,149	288,035,515	-
Receipts of interest	102,188	1,733,665	-	177,691	10,942,013	9,596,047	22,551,604	33,495
Net increase in restricted deposits and funded reserves	-	-	-	-	-	(282,161)	(282,161)	-
Net cash provided by investing activities	1,002,188	1,733,665	-	184,709	107,297,799	9,398,035	119,616,396	33,495
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,448,626	(13,074,068)	(5,029,377)	821,640	9,076,526	4,965,215	208,562	(114,683)
Cash and cash equivalents at July 1, 2003	9,307,004	83,725,451	5,029,377	20,452,196	42,345,508	66,274,872	227,134,408	1,361,901
Cash and cash equivalents at June 30, 2004	\$ 12,755,630	\$ 70,651,383	\$ -	\$ 21,273,836	\$ 51,422,034	\$ 71,240,087	\$ 227,342,970	\$ 1,247,218
Reconciliation of cash to cash and cash equivalents:								
Cash	\$ 12,755,630	\$ 70,651,383	\$ -	\$ 1,240,189	\$ 9,190	\$ 53,738,433	\$ 138,394,825	\$ 1,247,218
Money market funds	-	-	-	20,033,647	48,873,845	17,501,654	86,409,146	-
U.S. Government securities	-	-	-	-	2,538,999	-	2,538,999	-
Cash and cash equivalents at June 30, 2004	\$ 12,755,630	\$ 70,651,383	\$ -	\$ 21,273,836	\$ 51,422,034	\$ 71,240,087	\$ 227,342,970	\$ 1,247,218

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS (continued)

Year ended June 30, 2004

	Federal Low Rent Program	Dwelling Unit Revolving Fund	Homes Revolving Fund	Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash flows from operating activities:								
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:								
Operating (loss) income	\$ (25,468,913)	\$ (43,011,628)	\$ -	\$ 1,881,029	\$ (19,588,476)	\$ 1,099,594	\$ (84,488,394)	\$ (183,097)
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:								
Net decrease in fair value of mortgage-backed securities	-	-	-	-	-	-	-	-
Depreciation	10,715,533	500,038	-	3,295,233	14,586,428	-	14,586,428	-
Provision for losses on real estate	-	41,938,000	-	-	221,593	4,026,349	18,758,746	41,407
Provision for losses	-	205,811	-	633,753	-	278,190	1,117,754	-
Changes in assets and liabilities:								
Mortgage loans receivable	-	178,403	-	-	7,229,131	(7,378)	7,400,156	-
Notes and loans receivable	-	276,412	-	-	-	(5,000,000)	(4,723,588)	-
Accrued interest receivable on mortgages, notes and loans	-	6,132	-	-	-	(68,291)	(62,159)	-
Tenant receivables	(126,063)	14,761	-	43,806	-	(248,678)	(316,974)	-
Other receivables	1,339,568	53,585	-	(7,379)	-	(7,475)	1,378,299	-
Due from other funds	(49,530)	(1,147,585)	-	-	-	(1,209,755)	(2,406,870)	-
Due from State of Hawaii	-	-	-	-	-	1,073	1,073	-
Due from HUD	-	-	-	-	-	(12,205)	(12,205)	-
Inventories	55,879	2,883	-	-	-	(17,496)	41,266	-
Prepaid expenses and other assets	-	-	-	(17,736)	3,014	126,962	112,240	-
Net investment in lease financing	-	-	-	-	-	438,232	438,232	-
Deposits held in trust	-	-	-	-	-	(6,836)	(6,836)	-
Investments in mortgage-backed securities	-	-	-	-	125,645,382	-	125,645,382	-
Accounts payable	(971,375)	(26,050)	-	(582,122)	(96,325)	23,629	(1,652,243)	-
Accrued interest payable	-	-	-	-	(6,138,261)	(6,755)	(6,145,016)	-
Other accrued expenses	715,826	31,400	-	(12,810)	(5,531)	(180)	728,705	-
Due to other funds	235,055	-	-	50,403	(20,359)	1,981,970	2,247,069	-
Due to HUD	-	-	-	-	-	21,265	21,265	-
Security deposits	8,102	(48)	-	(9,445)	-	4,391	3,000	-
Deferred income	(485,297)	(26,229)	-	-	-	2,781	(508,745)	-
Deferred refunding costs	-	-	-	-	-	-	-	-
Deferred commitment fees	-	-	-	-	(2,610,848)	-	(2,610,848)	-
Deferred gain on sale of units and land	-	(19,013)	-	-	-	-	(19,013)	-
Estimated future costs of land sold	-	1,309,517	-	-	-	-	1,309,517	-
Net cash (used in) provided by operating activities	\$ (14,031,215)	\$ 286,389	\$ -	\$ 5,273,932	\$ 119,225,748	\$ 2,019,387	\$ 112,774,241	\$ (141,690)

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2004

	Private Purpose Trusts
ASSETS	
Cash	\$ 8,150,743
Accrued interest	<u>-</u>
TOTAL ASSETS	<u>\$ 8,150,743</u>
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable	<u>\$ 707,915</u>
Total liabilities	707,915
Net assets	
Held in trust	<u>7,442,828</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,150,743</u>

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended June 30, 2004

	Private Purpose Trusts
	<hr/>
Additions	
State allotted appropriations	\$ -
Interest	<hr/> 6,861
Total additions	6,861
Deductions	
Capital outlays	<hr/> 3,319,747
Total deductions	<hr/> 3,319,747
CHANGE IN NET ASSETS	(3,312,886)
Net assets at July 1, 2003	<hr/> 10,755,714
Net assets at June 30, 2004	<hr/> <hr/> \$ 7,442,828

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

General

Chapter 201E, Hawaii Revised Statutes and Act 337, Session Laws of Hawaii (SLH) 1987, created the Housing Finance and Development Corporation (HFDC). The HFDC was created to perform housing finance, housing development and residential leasehold functions. The Hawaii Housing Authority, State of Hawaii (Authority) was organized pursuant to the provisions of Chapter 356, Hawaii Revised Statutes. The Authority was created to provide safe and sanitary dwelling accommodations for low and moderate-income residents of Hawaii.

In accordance with Act 350, SLH, 1997, effective July 1, 1998, the functions and employees of HFDC as well as those of the Authority and the Rental Housing Trust Fund were transferred to the newly created Housing and Community Development Corporation of Hawaii (Corporation). The purpose of Act 350, SLH, 1997, was to consolidate all state housing functions previously administered by the Authority, HFDC and the Rental Housing Trust Fund. The Corporation is a public body and a body corporate and politic and is, for administrative purposes only, considered to be a part of the State Department of Business, Economic Development and Tourism. In accordance with Act 92, Session Laws of Hawaii, 2003, effective July 1, 2003, administratively, the functions and employees of the Corporation were transferred to the State Department of Human Services.

For financial reporting purposes, the Corporation includes all funds that are controlled by or dependent on the Corporation's Board of Directors. Control by or dependence on the Corporation was determined on the basis of statutory authority and monies flowing through the Corporation to each fund.

HUD Subsidized Programs

The Federal Low-Rent Program and the various Section 8 funds are referred to collectively as the HUD Subsidized Programs and represent the contracts that the Corporation has entered into with the U.S. Department of Housing and Urban Development (HUD). The Federal Low-Rent Program is used to account for Corporation-owned housing projects, which are rented to low-income families.

HUD Subsidized Programs include subsidized housing assistance payments. Under these programs, low-income tenants lease housing units directly from private landlords rather than from the Corporation. Rental payment subsidies are paid directly to the private landlords by the Corporation using operating subsidies obtained from HUD.

The Federal Low-Rent Program includes all property and equipment, principally structures and improvements, acquired with contributions from HUD.



Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Policies

1. Basic Financial Statements

The accompanying financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments. This Statement established new financial reporting requirements for state and local governments in the United States of America. They required new information and restructured much of the information that governments have presented in the past. Comparability with reports issued in prior years was affected. The Corporation was required to implement these standards for the fiscal year ended June 30, 2002.

Other GASB Statements were required to be implemented in conjunction with Statement 34. Therefore, the Corporation implemented the following GASB Statements as of July 1, 2001: Statement 36, Recipient Reporting for Certain Shared Nonexchange Revenues, Statement 37, Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments: Omnibus and Statement 38, Certain Financial Statement Note Disclosures.

The Corporation is part of the executive branch of the State. The financial statements of the Corporation, are intended to present the financial position, changes in financial position, and cash flows where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Corporation. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2004, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which include the Corporation’s financial activities.

2. Government-Wide and Fund Financial Statements

The government-wide financial statements, the statement of net assets and the statement of activities, report information of all of the non-fiduciary activities of the Corporation. Governmental activities, which normally are supported by State allotments and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Government-Wide and Fund Financial Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. State allotments and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues. The Corporation does employ an indirect cost allocation system.

Net assets are restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Corporation's policy to use restricted resources first, then unrestricted resources as they are needed.

The fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are summarized into a single column. The Corporation's fiduciary funds are presented in the fund financial statements. Since by definition their assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities as obligations of the government, their funds are not incorporated into the government-wide statements.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

a. Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Interest expense of approximately \$32,463,000 was included as direct function expenses during the year ended June 30, 2004.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

b. Governmental Fund Financial Statements

The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. In applying the susceptible to accrual concept to intergovernmental revenues pursuant to GASB Statement 33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when applicable requirements, including time requirements are met.

Principal revenue sources considered susceptible to accrual include federal grants and interest on investments. Some revenue items that are considered measurable and available to finance operations during the year from an accounting perspective are not available for expenditure due to the State's present appropriation system. These revenues have been accrued in accordance with generally accepted accounting principles since they have been earned and are expected to be collected within sixty days of the end of the period. Other revenues are considered to be measurable and available only when cash is received by the Corporation.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include employees' vested vacation, which is recorded as an expenditure when utilized or paid. The amount of unmatured long-term indebtedness related to accumulated vacation at June 30, 2004 has been reported in the government-wide financial statements.

c. Proprietary Funds and Fiduciary Funds

The financial statements of proprietary funds and fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Each proprietary fund has the option under GASB Statement 20, Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities that Use Proprietary Fund Accounting, to elect to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Corporation has elected to not apply FASB statements after the applicable date.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

c. Proprietary Funds and Fiduciary Funds (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services or goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the Corporation's enterprise funds are interest income, rental income, land sales and conveyance tax revenues. Federal grants and interest income from investments are reported as nonoperating income.

4. Fund Accounting

The financial activities of the Corporation are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Corporation uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

GASB Statement 34 sets forth minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

a. Governmental Funds

General Fund – The general fund is the general operating fund of the Corporation. It is used to account for all financial activities except those required to be accounted for in another fund. This fund includes the Rent Supplement, Security/Beautification and the Homeless Program. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. These funds include Section 8 Housing Voucher Program, Contract Administration, Drug Elimination Programs, Shelter Plus Care, Family

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Fund Accounting (continued)

a. Governmental Funds (continued)

Investment Center, Youth Sports Program, Safe and Drug Free Schools and Communities, Housing Opportunities for Persons with AIDS (HOPWA) Program, Emergency Shelter Grant Program, Residential Opportunities Self-Sufficient Programs (ROSS) and Supportive Housing Program.

Capital Projects Fund – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary fund type. These funds include the Capital Projects Fund, EDI Special Project Grant and Department of Labor Employment and Training Grant.

The Corporation reports the following major governmental funds:

- General Fund
- Capital Projects Fund
- Housing Voucher Program – accounts for federal contributions for housing assistance payments under the Housing Choice Voucher Program.
- Section 8 Contract Administration – accounts for federal contributions primarily for housing payments under the Project-Based Section 8 program.

b. Proprietary Funds

Enterprise Funds – These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to customers, or where sound financial management dictates that periodic determinations of results of operations are appropriate. The enterprise funds include the Revenue Bond Funds, Dwelling Unit Revolving Fund, Homes Revolving Fund, and other funds.

Under the Revenue Bond Funds, proceeds from the bond issues are used to make below-market interest rate mortgage loans to persons and families of low to moderate income for the purchase of owner-occupied single-family and condominium dwellings, provide interim construction loans and permanent financing of affordable rental housing projects; and to

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Fund Accounting (continued)

b. Proprietary Funds (continued)

finance multifamily housing projects. These funds include the Single Family Mortgage Purchase Revenue Bond Fund, the Multifamily Revenue Bond Fund, the Rental Housing System Revenue Bond Fund, the State of Hawaii Affordable Rental Program (SHARP) and the University of Hawaii Faculty Housing Program Revenue Bond Fund.

The other funds include the Federal Low-Rent Program, Housing Revolving Fund, Housing for Elders Revolving Fund, Teacher Housing Revolving, Banyan Street Manor Project, Wilikina Apartments Project, Kekuiani Gardens Project, Kekumu at Waikoloa Project, Fee Simple Residential Revolving Fund, Rental Assistance Fund, Housing Finance Revolving Fund, Disbursing Fund, Rental Housing Trust Fund, Housing Alteration Revolving Loan Fund, Federal Grant Program Fund, Grant-in-aid Fund, Hamakua and Waialua.

Internal Service Funds – These funds account for those activities, which provide goods or services primarily to the Corporation, rather than to external parties. In the government-wide statements, internal service funds are included with business-type activities. These funds include the Equipment Rental Fund and Vehicle Rental Fund.

The Corporation reports the following as major proprietary funds:

Federal Low-Rent Program – accounts for the proceeds from federal contributions for the development of rental property and rental income and federal operating subsidies from such properties.

Dwelling Unit Revolving Fund – accounts for state funds used for acquiring, developing, selling, leasing and renting residential, commercial and industrial properties, providing mortgage and interim financing and rental income and sales proceeds and interest earnings from the financing and investment of such funds.

Homes Revolving Fund – accounts for the proceeds from state contributions for the purpose of developing and implementing appropriate housing development programs.

Rental Housing System Revenue Bond Fund – accounts for special funds to account for housing projects or systems of housing projects financed from the proceeds of bonds secured under the same trust indenture. The fund accounts for four multifamily rental housing projects located throughout the State of Hawaii.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Fund Accounting (continued)

b. Proprietary Funds (continued)

Single Family Mortgage Purchase Revenue Bond Fund – accounts for the proceeds for the issuance of bonds used to make below-market interest rate mortgage loans and the repayment, interest, and earnings from such loans and investment of such funds.

c. Fiduciary Funds

The private-purpose trust funds account for net assets held in a trustee capacity for others.

5. Capital Assets

Capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities in the government-wide financial statements and proprietary funds financial statements. Capital assets are defined by the Corporation as land and those assets with estimated useful lives greater than one year and with an acquisition cost greater than:

Land improvements	\$100,000
Building and building improvements	100,000
Equipment	5,000

Purchased and constructed capital assets are valued at cost. Donated assets are recorded at their fair market value at the date of donation.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements.

Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds financial statements. The Corporation utilizes the straight-line method over the assets' estimated useful life. No depreciation is recorded for land and land improvements. Generally, the useful lives are as follows:

	Governmental Activities	Proprietary Fund and business-type activities
Building and building improvements	25 years	10 – 40 years
Equipment	7 years	1 – 10 years

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

6. Deferred Revenues

Deferred revenues at the fund level and government-wide level arise when the Corporation receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the Corporation has a legal claim to the resources, the liability for deferred revenue is removed from the statement of net assets and revenue is recognized. Deferred revenues at June 30, 2004 consist primarily of Federal grant funds and deferred rental income.

7. Cash and Cash Equivalents

Cash and cash equivalents for the purpose of the statement of cash flows – proprietary funds, include all cash and investments with original purchased maturities of three months or less.

8. Investments

Investments in U.S. government securities, certificates of deposit and money market funds with maturities of one year or less when purchased are stated at cost. Non-participating investment contracts, generally repurchase agreements, are reported at cost. All other investments are reported at fair value.

9. Inventories

Development in Progress and Dwelling Units

Inventories consist of developments in progress and units available for sale. Units available for sale include constructed units, developed lots and repurchased units available for sale. Developments in progress include construction in progress and land held for future development. The Corporation currently has three development projects in progress. These master planned community projects include Kapolei (Oahu), La'i'opua (Hawaii), and Leiali'i (Maui). Costs included in developments in progress relate to infrastructure construction for these master planned communities.

Inventories are stated at the lower of cost or estimated net realizable value. All estimated development, holding and disposition costs to the anticipated date of disposition are considered in the determination of estimated net realizable value. Estimated net realizable value represents



Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

9. Inventories (continued)

Development in Progress and Dwelling Units (continued)

management's estimates, based on management's plans and intentions, of sales price less development, holding and disposition costs, assuming that the development and disposition occurs in the normal course of business. Valuation allowances for estimated losses on units available for sale are provided when the total estimated carrying costs exceeds the estimated net realizable value.

The recognition of gain from the sale of units is dependent on a number of factors relating to the nature of the property sold, the terms of the sale and the future involvement of the Corporation in the property sold. If a real estate transaction does not meet established financial criteria, profit recognition is deferred and recognized under the installment or cost recovery method until such time as the criteria are met.

Material and Supplies

In the governmental funds, the cost of inventories is recorded as an expenditure when consumed.

10. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and service type transactions are classified as "due to and from other funds." Interfund receivables and payables between funds (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See note R for details of interfund transactions, including receivables and payables at year end.

11. HUD Annual Contributions

The Corporation receives annual contributions and subsidies from HUD for operating the Corporation's housing assistance payment programs and the development and operation of low-income housing projects. The Corporation also receives annual subsidies from HUD for housing assistance payments and operating deficits incurred in the operation of the programs. Annual subsidies recorded in the proprietary fund types are recognized as nonoperating revenue when realized and earned and are accounted for in the statement of revenues, expenses and changes in fund net assets – proprietary funds as HUD operating subsidy.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

12. Amortization

Issuance costs of revenue bonds are deferred and amortized ratably over the term of the bond principal outstanding.

13. Vacation

Employees hired prior to July 2, 2001 are credited with vacation at a rate of 168 hours per calendar year. Employees hired on or subsequent to July 2, 2001 are credited with vacation which ranges from 96 hours to 192 hours per calendar year depending on years of service. Accumulation of such vacation credits is limited to 720 hours at calendar year end and is convertible to pay upon termination of employment. Liabilities for accumulated unpaid vacation are accrued at the end of each accounting period utilizing current salary rates. Such vacation credits are recorded as accrued wages and employee benefits payable in the government-wide and the enterprise funds financial statements at the balance sheet date. Accumulated unpaid vacation estimated to be used or paid during the next year is approximately \$641,000. The change in accumulated unpaid vacation during the year is approximately as follows:

<u>Balance at July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2004</u>
\$2,346,000	\$951,930	\$857,500	\$2,440,430

14. Allocated Costs

The Corporation provides certain administrative services to its various funds. The cost of these services is allocated to the funds based on estimates of benefits provided to the funds.

15. Reservations of Fund Balances

The general and capital projects fund balances are reserved for continuing appropriations, which are comprised of encumbrances and unencumbered allotment balances. Encumbrances represent outstanding commitments, which generally are liquidated in the subsequent fiscal year.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

15. Reservations of Fund Balances(continued)

Unencumbered allotment balances represent amounts that have been released and made available for encumbrance or expenditure and are legally segregated for a specific future use.

16. Risk Management

Liabilities related to certain types of losses (including torts, theft of, damage to, or destruction of assets, errors or omissions, natural disasters and injuries to employees) are reported when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

17. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE B – BUDGETING AND BUDGETARY CONTROL

The budget of the Corporation is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services and activities to be provided during the fiscal year, (2) the estimated revenues available to finance the operating plan, and (3) the estimated spending requirements of the operating plan. The budget represents a process through which financial policy decisions are made, implemented and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected as budgeted revenues in the accompanying Required Supplementary Information – Budgetary Comparison Schedule estimates as compiled by the Corporation and reviewed by the Department of Budget and Finance. Budgeted expenditures are derived primarily from acts of the State Legislature and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes and other specific appropriation acts in various Session Laws of Hawaii.

Expenditures of these appropriated funds are made pursuant to the appropriations in the biennial budget as amended by subsequent supplemental appropriations. Budgetary control is maintained at the departmental level. Budget revisions and interdepartmental transfers may be affected with certain executive and legislative branch approvals.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE B – BUDGETING AND BUDGETARY CONTROL (continued)

The general fund and certain special revenue funds have legally appropriated annual budgets. The final legally adopted budget in the accompanying Required Supplementary Information – Budgetary Comparison Schedule represent the original appropriations, transfers and other legally authorized legislative and executive changes.

To the extent not expended or encumbered, general fund and special revenue funds appropriations generally lapse at the end of the fiscal year or grant period for which the appropriations were made. The State Legislature or federal government specifies the lapse dates and any other contingencies that may terminate the authorization for other appropriations. Known lapses occurring in the year of appropriation, if any, are included in the amended budgets, and are netted against revenues in the accompanying Required Supplementary Information – Budgetary Comparison Schedule.

A comparison of both the original budget and the final budget to the actual revenues and expenditures of the general and certain special revenue funds are presented in the accompanying Required Supplementary Information – Budgetary Comparison Schedule. Differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with generally accepted accounting principles (GAAP) are mainly due to revenues and expenditures of unbudgeted funds and the different methods used to recognize resource uses. For budgeting purposes, resource uses are recognized when cash disbursements are made or funds are encumbered. For financial statements presented in accordance with GAAP, expenditures are recognized when incurred and encumbrances are not reported as resources used.

A summation of the differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with GAAP for the general and certain special revenue funds for the year ended June 30, 2004 is set forth in the Required Supplementary Information.

NOTE C – CASH

The State maintains a cash pool that is available to all funds. The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance may invest any monies of the State, which in the Director's judgment are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited with approved financial institutions or invested in the State Treasury Investment Pool. Cash accounts that participate in the investment pool accrue interest based on the average weighted cash balances of each account.

The State requires that the depository banks pledge, as collateral, government securities held in the name of the State for deposits not covered by federal deposit insurance.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE C – CASH (continued)

At June 30, 2004, total cash reported in the Statement of Net Assets is \$149,421,193, which consisted of the following:

	Governmental	Business-Type	Total
State pool and petty cash	\$6,381,210	\$123,412,472	\$129,793,682
Cash in bank (book balance)	3,293,274	16,155,826	19,449,100
	9,674,484	139,568,298	149,242,782
Assets held by trustees	-	73,745	73,745
Deposits held in trust	-	104,666	104,666
Total Cash	<u>\$9,674,484</u>	<u>\$139,746,709</u>	<u>\$149,421,193</u>

Bank balance of cash in bank was approximately \$19,854,000, of which \$300,000 was covered by federal depositary insurance or collateral held by the Corporation or Corporation's agent in the Corporation's name; \$19,554,000 by collateral held by the pledging financial institution's trust department or agent in the Corporation's name, and \$0 was uninsured or uncollateralized.

NOTE D – INVESTMENTS

The Revenue Bond Funds' trust indentures authorize the trustees to invest in certificates of deposit, money market funds, U. S. government or agency obligations, and repurchase agreements. Uninsured certificates of deposit are required to be collateralized by investment securities of an equal or greater market value. Repurchase agreements are generally treated as collateral lending. The underlying securities for repurchase agreements are required to be U. S. government or agency obligations of an equal or greater market value. The Corporation monitors the market value of these securities and obtains additional collateral when appropriate. At June 30, 2004, the underlying market values of the securities approximated carrying amount. These investments are included on the statement of net assets as assets held by trustees.

Investments are categorized to give an indication of the level of risk assumed by the Corporation at June 30, 2004. Category 1 includes investments that are insured or registered, or for which the securities are held by the Corporation or its agent in the Corporation's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Corporation's name. Category 3 includes uninsured and unregistered investments for which the

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE D – INVESTMENTS (continued)

securities are held by the counterparty, or by its trust department or agent, but not in the Corporation's name.

Investments at June 30, 2004 are summarized as follows:

	Category			Reported	
	1	2	3	Amount	Fair value
Certificates of deposit	\$ –	\$ 4,250,000	\$ –	\$ 4,250,000	\$ 4,250,000
U. S. government securities	950,000	11,531,820	–	12,481,820	12,479,120
Mortgage-backed securities	6,756,529	270,420,124	–	277,176,653	277,176,653
Repurchase agreements	–	142,907,354	–	142,907,354	142,907,354
	<u>\$7,706,529</u>	<u>\$429,109,298</u>	<u>\$ –</u>	436,815,827	436,813,127
Money market funds				86,409,146	86,409,146
Guaranteed investment contracts				<u>943,138</u>	<u>943,138</u>
Total investments				<u>\$524,168,111</u>	<u>\$524,165,411</u>
Assets held by Trustee under Revenue Bonds				\$512,211,582	
Investments – current				5,200,000	
Investments - noncurrent				<u>6,756,529</u>	
Total Investments				<u>\$524,168,111</u>	

NOTE E – MORTGAGE LOANS AND NOTES AND LOANS RECEIVABLE

Mortgage loans and other notes and loans receivable at June 30, 2004 are comprised of the following:

	Mortgage Loans	Notes and Loans
Mortgage loans bearing interest at 0.0% to 13.5%, maturing at various dates through 2046	\$ 75,911,351	\$ –
Promissory note bearing interest at 9%, due 2010	–	426,100
	<u>75,911,351</u>	<u>426,100</u>
Less current maturities	<u>(1,758,639)</u>	<u>–</u>
	<u>\$ 74,152,712</u>	<u>\$ 426,100</u>

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE E – MORTGAGE LOANS AND NOTES AND LOANS RECEIVABLE (continued)

Mortgage and development loans are collateralized by real property. The Revenue Bond Funds' mortgage loans are also subject to primary mortgage and mortgage pool insurance coverage that, subject to aggregate loss limitations, reimburses the Corporation for all losses incurred, if any, from the disposition of real property acquired through foreclosure.

The \$426,100 promissory note receivable from a developer is uncollateralized. On January 1, 2010, the Corporation has the option to acquire certain improvements constructed by the developer. If the Corporation does not exercise the option, the entire principal balance and accrued interest shall be paid over a period of 15 years in monthly installments necessary to fully amortize the outstanding amount of this note.

NOTE F – NET INVESTMENT IN FINANCING LEASE

University of Hawaii Faculty Housing Program Revenue Bond Fund

On November 1, 1995, the Corporation entered into a lease and sublease agreement (Agreement) with the Board of Regents, University of Hawaii (University). Under the Agreement, the Corporation leases the land under the housing project from the University for an annual rent of \$1 and then subleases the leased land, buildings and improvements and equipment back to the University. The University will make certain lease rental payments to the Corporation, including amounts sufficient to pay the principal, premium, if any, and interest on the bonds as the same become due and payable. The Agreement expires on June 30, 2026. Upon expiration of the Agreement, the ownership of the buildings and improvements and equipment will revert to the University.

The following lists the components of the net investment in direct financing lease as of June 30, 2004:

Total minimum lease payments to be received	\$ 30,062,587
Less unearned interest income	<u>(12,761,311)</u>
Net investment in direct financing lease	17,301,276
Less current portion	<u>(460,545 )</u>
	<u><u>\$ 16,840,731</u></u>

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE F – NET INVESTMENT IN FINANCING LEASE (continued)

University of Hawaii Faculty Housing Program Revenue Bond Fund (continued)

The future approximate minimum lease payments to be received through 2009 and in five-year increments thereafter are as follows:

Year ending June 30,	
2005	\$ 1,239,000
2006	1,235,000
2007	1,235,000
2008	810,000
2009	810,000
2010 – 2014	4,049,000
2015 – 2019	8,913,000
2020 – 2024	2,448,000
2025 – 2026	<u>9,323,587</u>
	<u><u>\$30,062,587</u></u>

NOTE G – REVENUE BOND FUNDS – RESERVE REQUIREMENTS

Under the trust indentures between the Corporation and the trustees for the Single Family Mortgage Purchase Revenue Bonds, investment assets and cash are required to be held by the trustees in various accounts and funds, including debt service reserve accounts, loan funds and mortgage loan reserve funds. The uses of these assets are restricted by the terms of the indentures.

At June 30, 2004, the following debt service reserves and mortgage loan reserves required by the indentures were included in assets held by trustees under Revenue Bond Programs.

	Single Family Mortgage Purchase
Debt service reserve requirements	\$39,190,000
Mortgage loan reserve requirements	<u>2,688,583</u>
	<u><u>\$41,878,583</u></u>



Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE G – REVENUE BOND FUNDS – RESERVE REQUIREMENTS (continued)

At June 30, 2004, approximately \$56 million and \$5.9 million of investment securities, at cost, were being held in the debt service reserve funds and mortgage loan reserve funds, respectively.

Under the trust indenture agreement between the Corporation and the trustee for the Rental Housing System and SHARP revenue bonds, the Corporation is required to provide net revenues (as defined in the trust indenture agreement) together with lawfully available funds of at least 1.25 times the aggregate debt service on outstanding bonds during the bond year. Additionally, the Corporation is to provide net revenues (as defined in the trust indenture agreement) of at least 1.10 times the aggregate debt service on outstanding bonds during the bond year. At June 30, 2004, the Rental Housing System and SHARP revenue bond funds provided net revenues (as defined in the trust indenture agreement) together with lawfully available funds of 7.55 and 23.77 times the aggregate debt service on outstanding bonds during the year, respectively, and net revenues (as defined in the trust indenture agreement) of 1.05 and 2.23 times the aggregate debt service on outstanding bonds during the year, respectively. As per the trust indenture agreement, the Rental Housing System Revenue Bond Fund may use unrestricted assets of the Corporation's other funds to calculate the ratio of net revenues and lawfully available funds to the aggregate debt service on outstanding bonds during the year.

Under the trust indenture agreement between the Corporation and the trustee for the Rental Housing System, failure by the Corporation to comply with any of the rate covenants above is not deemed a default if the Corporation presents a plan to the Trustee to remedy such failure within 90 days from the period of notification of such failure by the Trustee. As of June 30, 2004, the Rental Housing System failed to comply with the trust net revenues indenture rate requirements. The Corporation presented a plan to the Trustee to remedy its failure to comply with rate requirements of the trust indenture. Pursuant to the plan, in October 2004, the Corporation refinanced all bonds in the Rental Housing System and SHARP, repealed the two programs and created a new program called the Rental Housing System.

The trust indenture agreement also requires that the mortgage loan reserves for these Revenue Bond Funds be funded from other than bond proceeds and, accordingly, the reserves have been funded by commitment fees at June 30, 2004.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE H – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 2,373,410	\$ —	\$ —	\$ 2,373,410
Construction in progress	20,426,854	1,851,477	(4,524,421)	17,753,910
Total capital assets not being depreciated	22,800,264	1,851,477	(4,524,421)	20,127,320
Capital assets, being depreciated				
Building and improvements	30,301,806	4,369,000	—	34,670,806
Equipment	1,096,574	—	—	1,096,574
Total capital assets being depreciated	31,398,380	4,369,000	—	35,767,380
Less accumulated depreciation for:				
Building and improvements	15,591,239	1,030,696	—	16,621,935
Equipment	1,044,147	18,061	—	1,062,208
Total accumulated depreciation	16,635,386	1,048,757	—	17,684,143
Governmental activities, net	<u>\$ 37,563,258</u>	<u>\$ 5,171,720</u>	<u>\$ (4,524,421)</u>	<u>\$ 38,210,557</u>
<b>Business-type activities</b>				
Capital assets, not being depreciated				
Land	\$ 61,548,938	\$ —	\$(17,375,751)	\$ 44,173,187
Construction in progress	32,904,792	12,562,943	(13,176,325)	32,291,410
Total capital assets not being depreciated	94,453,730	12,562,943	(30,552,076)	76,464,597
Capital assets being depreciated				
Building and improvements	549,050,268	13,182,233	—	562,232,501
Equipment	10,860,771	294,526	(122,398)	11,032,899
Total capital assets being depreciated	559,911,039	13,476,759	(122,398)	573,265,400
Less accumulated depreciation for:				
Building and improvements	255,790,809	17,826,425	—	273,617,234
Equipment	18,606,330	748,457	(121,975)	19,232,812
Total accumulated depreciation	274,397,139	18,574,882	(121,975)	292,850,046
Business-type activities capital assets, net	<u>\$379,967,630</u>	<u>\$7,464,820</u>	<u>\$(30,552,499)</u>	<u>\$356,879,951</u>

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE H – CAPITAL ASSETS (continued)

Current-period depreciation expense was charged to function as follows:

Governmental activities	
Homeless Service and Assistance Program	\$ 935,662
Rental Housing and Assistance Program	113,095
	<hr/>
Total depreciation expense – governmental activities	\$1,048,757
Business-type activities	
Rental Assistance Program	\$10,715,533
Housing Development Program	500,038
Multi-family Mortgage Programs	-
Single-family Mortgage Loan Program	268
Rental Housing Program	7,317,636
Others	41,407
	<hr/>
Total depreciation expense – business-type activities	\$18,574,882
Total depreciation expense	<u>\$19,623,639</u>

At June 30, 2004, capital assets for the proprietary funds consisted of the following:

	Proprietary Fund Type					
	Enterprise Funds			Internal Service		Total
	Revenue Bond Funds	Dwelling Unit Revolving Fund	Other Funds	Equipment Rental	Vehicle Rental	
Land	\$ 16,186,850	\$ 3,945,661	\$ 24,040,676	\$ -	\$ -	\$ 44,173,187
Buildings and improvements	129,119,274	9,146,380	423,966,847	-	-	562,232,501
Equipment, furniture and fixtures	1,574,649	259,234	7,234,855	1,539,214	424,947	11,032,899
Construction in progress	-	-	32,291,410	-	-	32,291,410
	<hr/> 146,880,773	<hr/> 13,351,275	<hr/> 487,553,788	<hr/> 1,539,214	<hr/> 424,947	<hr/> 649,729,997
Less accumulated depreciation	<hr/> 56,495,765	<hr/> 7,048,735	<hr/> 227,405,809	<hr/> 1,515,295	<hr/> 384,442	<hr/> 292,850,046
Net property and Equipment	<u>\$ 90,385,008</u>	<u>\$ 6,302,540</u>	<u>\$ 260,127,979</u>	<u>\$ 23,919</u>	<u>\$ 40,505</u>	<u>\$ 356,879,951</u>

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE I – MORTGAGE AND NOTES PAYABLE

Mortgage Payable

The Banyan Street Manor Project entered into a mortgage note agreement in October 1976 in the amount of \$1,727,800 with USGI, Inc. (insured by HUD). On September 1, 1996, Greystone Servicing Corporation, Inc. (GSCI) became the new servicing agent and mortgagee. The mortgage loan bears interest at 7.5% and is collateralized by the rental property. Principal and interest are payable in monthly installments of \$11,370, maturing January 1, 2018. At June 30, 2004, the mortgage payable balance was \$736,326.

The Kekuilani Gardens Project (Kekuilani) entered into a mortgage agreement in December 1996 in the amount of \$5,213,614 with the U.S. Department of Agriculture and Rural Development. The mortgage loan bears interest at 7.25% and is collateralized by the Kekuilani Gardens Project. Principal and interest are payable in monthly installments of \$11,509 and matures on December 1, 2046. At June 30, 2004, the mortgage payable balance was \$5,110,589.

Kekuilani also entered into an interest credit and rental assistance agreement in December 1996 with the U.S. Department of Agriculture and Rural Development, which reduces Kekuilani's principal and interest payments. During the period, Kekuilani realized approximately \$255,800 of interest credit reducing the interest expense from approximately \$372,400 to \$116,600.

In addition, Kekuilani entered into a mortgage agreement in December 1996 in the amount of \$696,267 with the Rental Housing Trust Fund. The mortgage loan bears interest at 1% and is collateralized by the Kekuilani Gardens Project. Principal and interest are payable in monthly installments of \$1,475 and matures on January 1, 2047. At June 30, 2004, the mortgage payable balance was \$605,739.

Notes Payable

The Corporation has three mortgage notes payable to the U.S. Department of Agriculture, Farmers Home Administration (FmHA). Two notes were originated in August 1976, and are payable in combined monthly installments of \$2,207, including interest at 1%, with the final combined payment due in August 2009. The third note was originated in October 1994, and is payable in monthly installments of \$1,315, including interest at 1%, due in October 2027. The notes are secured by property and rental receipts. Notes payable to the U.S. Department of Agriculture FmHA as of June 30, 2004 totaled \$417,008.

During 1996, the SHARP borrowed \$3.5 million from the Rental Housing Trust Fund and issued approximately \$7 million of revenue bonds to purchase the Kekuilani Courts Rental Housing project from an outside party. The full amount of the non-interest bearing note shall become due and payable upon the earlier of June 30, 2027, or the redemption of all SHARP revenue bonds associated with the Kekuilani Courts Rental Housing project.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE I – MORTGAGE AND NOTES PAYABLE (continued)

Notes Payable (continued)

Notes payable also consists of a \$171,327 unsecured promissory note payable to an individual (the former owner of Banyan Street). The entire principal balance plus accrued interest, which accrues at the same rate as the residual receipt funds held by GSCI, Inc. (approximately 1.0% for the year ended June 30, 2004), is due within 45 days of full payment of the 7.5% GSCI, Inc. mortgage note collateralized by HUD which matures on January 1, 2018.

Mortgage and notes payable activity during the year was as follows:

	Balance at July 1, 2003	Additions	Reductions	Balance at June 30, 2004	Less Current Portion	Long Term Portion
Mortgage payable	\$ 6,559,559	\$ –	\$ 106,905	\$ 6,452,654	(\$114,308)	\$6,338,346
Notes payable	4,126,201	–	37,866	4,088,335	(38,247)	4,050,088
Total	\$10,685,760	\$ –	\$144,771	\$10,540,989	(\$152,555)	\$10,388,434

The approximate debt service requirements of mortgage and notes payable through 2009 and in five-year increments thereafter to maturity are as follows:

Year ending June 30,	Principal	Interest	Total
2005	\$ 153,000	\$ 177,000	\$ 330,000
2006	161,000	168,000	329,000
2007	170,000	159,000	329,000
2008	180,000	150,000	330,000
2009	163,000	135,000	298,000
2010-2014	531,000	562,000	1,093,000
2015-2019	360,000	467,000	827,000
2020-2024	635,000	363,000	998,000
2025-2029	4,065,000	217,000	4,282,000
2030-2034	735,000	53,000	788,000
2035-2039	1,026,000	8,000	1,034,000
2040-2044	1,441,000	4,000	1,445,000
2045-2047	919,000	1,000	920,000
	<u>\$10,539,000</u>	<u>\$2,464,000</u>	<u>\$13,003,000</u>

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE J – REVENUE BONDS PAYABLE

Through June 30, 2004, approximately \$1,941,523,000 of revenue bonds been issued. The revenue bonds are payable from and secured solely by the revenues and other monies and assets of the Revenue Bond Funds and other assets of the Corporation pledged under the indentures.

Revenue bonds payable at June 30, 2004 consist of the following issuances:

Single Family Mortgage Purchase revenue bonds:

1991 Series A:	
Term bonds maturing annually from 2005 through 2012, 2018 through 2021, and 2026 through 2025 (6.75% to 7.10%)	\$ 8,535,000
1991 Series B:	
Term bonds maturing annually from 2013 through 2017 and 2016 through 2032 (6.90% and 7.00%)	19,635,000
1994 Series A:	
Serial bonds maturing annually through 2010 (4.95% to 5.75%)	5,095,000
Term bonds maturing annually from 2017 through 2027 (5.05% to 6.00%)	<u>16,340,000</u>
	21,435,000
1994 Series B:	
Term bonds maturing annually from 2011 through 2018 and 2027 through 2028 (5.75% to 5.90%)	87,285,000
1997 Series A:	
Term bonds maturing annually through 2031 (4.90% to 5.75%)	48,240,000
1997 Series B:	
Serial bonds maturing annually from 2004 to 2010 (4.45% to 5.00%)	14,035,000
Term bonds maturing annually from 2011 through 2018 (5.45%)	<u>29,405,000</u>
	43,440,000
Single Family Mortgage Purchase revenue bonds subtotal carried forward	\$228,570,000

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE J – REVENUE BONDS PAYABLE (continued)

Single Family Mortgage Purchase revenue bonds subtotal brought forward	\$228,570,000
1998 Series A:	
Term bonds maturing annually from 2008 through 2031 (4.85% to 5.40%)	89,235,000
1998 Series B:	
Term bonds maturing annually from 2020 through 2029 (5.30%)	11,085,000
1998 Series C:	
Term bonds maturing annually from 2020 through 2021 (5.35%)	4,060,000
2000 Series A	
Term bonds maturing annually from 2003 through 2033 (5.93% to 6.38%)	25,000,000
2002 Series A	
Serial bonds maturing from 2004 through 2013 (2.05% to 4.80%)	4,100,000
Term bonds maturing in 2015 through 2034 (4.40% to 5.38%)	24,075,000
Placed bonds maturing in 2024 through 2034 (5.38%)	3,965,000
	<u>32,140,000</u>
2002 Series B	
Term bonds maturing in 2027 through 2029 (5.25%)	<u>1,810,000</u>
Total Single Family Mortgage Purchase revenue bonds	\$391,900,000

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE J – REVENUE BONDS PAYABLE (continued)

Multifamily Housing revenue bonds:

1999 Series (Manana Gardens Apartment project) – serial Bonds maturing in 2035 (6.30%)	\$ 3,640,000
2000 Series (Sunset Villas project) – serial bonds maturing in 2012, 2022, 2032 and 2036 (5% to 5.75%)	26,630,000
2002 Series (Hale Hoaloha Apartments Project) – mortgage installment bonds maturing annually through 2018 (6.75%)	<u>1,736,849</u>
Total Multifamily Housing revenue bonds	32,006,849

Rental Housing System revenue bonds:

1989 Series A (Honokowai Kauhale project) – serial Bonds maturing annually through 2025 (variable rate in accordance with the terms of the indenture, 1.04% at June 30, 2004)	14,300,000
1990 Series A (Kamakee Vista project) – serial bonds maturing annually through 2026 (variable rate in accordance with The terms of the indenture, 2.29% at June 30, 2004)	31,800,000
1990 Series B (Pohulani project) – serial bonds maturing annually through 2026 (variable rate in accordance with The terms of the indenture, 2.29% at June 30, 2004)	<u>33,900,000</u>
	80,000,000

1993 Series A (La'ilani project):

Serial bonds maturing annually through 2006 (4.00% to 5.20%)	725,000
Term bonds maturing in 2013 and 2019 (5.60% and 5.70%)	<u>9,560,000</u>
	<u>10,285,000</u>

Total Rental Housing System revenue bonds	\$ 90,285,000
---	---------------



Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE J – REVENUE BONDS PAYABLE (continued)

State of Hawaii Affordable Rental Housing Program revenue bonds:

1993 Series A (Kauhale Kakaako project) – serial

Bonds maturing annually through 2028

(variable rate in accordance with the terms of

The indenture, 1.21% at June 30, 2004)

\$ 30,100,000

1995 Series A (Kekuilani Courts Rental Housing  
project) – term bonds maturing on 2016, 2023  
and 2031 (6.00%, 6.05% and 6.10%)

6,740,000

Total State of Hawaii Affordable Rental Housing  
Program revenue bonds

36,840,000

University of Hawaii Faculty Housing Program revenue bonds:

1995 Series:

Serial bonds maturing annually through 2007 (4.45% to 5.00%)

1,190,000

Term bonds maturing annually from 2017 through 2026 (5.65%  
and 5.70%)

14,255,000

Total University of Hawaii Faculty Housing  
Program revenue bonds

15,445,000

566,476,849

Less deferred refunding amount (difference between reacquisition  
price and net carrying value of old debt)

1,525,627

Total Revenue Bonds

564,951,222

Less current portion

9,200,000

\$555,751,222

Interest on the Single Family Mortgage Purchase, Multifamily Housing and University of Hawaii Faculty Housing Program revenue bonds is payable semi-annually. Interest on the Rental Housing System (RHS) and SHARP revenue bonds is payable monthly except for the RHS 1993 Series A and SHARP 1995 Series A bond issues, which are payable semi-annually.

The Rental Housing System 1989 Series A and 1990 Series A and B and State of Hawaii Affordable Rental Housing Program 1993 Series A revenue bonds bear interest at the rate determined each week by the Remarketing Agent on the basis of market conditions as more fully described in the indenture agreement.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE J – REVENUE BONDS PAYABLE (continued)

The Single Family Mortgage Purchase and Rental Housing System revenue bonds with designated maturity dates, the Multifamily Housing revenue bonds, the SHARP 1995 Series A revenue bonds and the University of Hawaii Faculty Housing Program revenue bonds may be redeemed at the option of the Corporation commencing in 2001 for the Single Family Mortgage Purchase 1991 Series, 2004 for the Single Family Mortgage Purchase 1994 Series, 2007 for the Single Family Mortgage Purchase 1997 Series, subject to a redemption premium which ranges from 2% to zero; 2008 for the Single Family Mortgage Purchase 1998 Series, subject to a redemption premium that ranges from 1.5% to zero; 2010 for the Single Family Mortgage Purchase 2000 Series, and 2014 for the Single Family Mortgage Purchase 2002 Series, 2010 for the Multifamily Housing 1999 Series, 2011 for the 2000 Series, subject to a redemption premium which ranges from 2% to zero; 2005 for the SHARP 1995 Series A subject to redemption premiums that ranges from 2% to zero; and 2005 for the University of Hawaii Faculty Housing Program 1995 Series subject to redemption premiums that range from 1% to zero. The revenue bonds may also be redeemed without premium prior to maturity, at the option of the Corporation, as funds become available from undisbursed bond proceeds, principal payments and prepayments of mortgages, excess amounts in the debt service reserve account or excess revenues (as defined in the bond indentures). The Rental Housing System and SHARP revenue bonds with variable interest rates may be redeemed early at face value at the option of either the bondholders or the Corporation during the variable interest rate period. Subsequent to the variable interest rate period, the bonds may be redeemed early at the option of the Corporation subject to a redemption premium that ranges from 2% to zero.

During the year ended June 30, 2004, early redemptions totaled \$203,415,000.

Revenue bonds activity during the year was as follows:

	Balance at July 1, 2003	Additions	Reductions	Balance at June 30, 2004
Single Family Mortgage Purchase	\$604,780,000	\$ —	\$212,880,000	\$391,900,000
Multifamily Housing	32,649,286	—	642,437	32,006,849
Rental Housing System	91,740,000	—	1,455,000	90,285,000
State of Hawaii Affordable Rental Housing Program	37,090,000	—	250,000	36,840,000
University of Hawaii Faculty Housing Program	15,805,000	—	360,000	15,445,000
	782,064,286		215,587,437	566,476,849
Less deferred refunding amount	1,746,952	—	221,325	1,525,627
Total	<u>\$780,317,334</u>	<u>\$ —</u>	<u>\$215,366,112</u>	<u>\$564,951,222</u>

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE J – REVENUE BONDS PAYABLE (continued)

The approximate annual debt service requirements through 2009 and in five-year increments thereafter to maturity for revenue bonds are as follows:

Year ending June 30:	Principal	Interest	Total
2005	\$ 9,200,000	\$ 39,117,000	\$ 48,317,000
2006	9,950,000	38,468,000	48,418,000
2007	11,005,000	37,763,000	48,768,000
2008	10,675,000	37,000,000	47,675,000
2009	11,450,000	36,203,000	47,653,000
2010 – 2014	94,560,000	165,884,000	260,444,000
2015 – 2019	120,130,000	132,711,000	252,841,000
2020 – 2024	112,290,000	96,810,000	209,100,000
2025 – 2029	133,302,000	49,136,000	182,438,000
2030 – 2034	50,115,000	8,797,000	58,912,000
2035 – 2036	3,800,000	270,000	4,070,000
	<u>\$566,477,000</u>	<u>\$642,159,000</u>	<u>\$1,208,636,000</u>

Arbitrage Rebate

In order to ensure the exclusion of interest on the Corporation's Rental Housing System revenue bonds, SHARP revenue bonds and Single Family Mortgage Purchase 1989 Series A, 1990 Series A, 1991 Series A and B and 1994 Series A and B revenue bonds from gross income for federal income tax purposes, the Corporation calculates rebates due to the U. S. Treasury annually. The rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. At June 30, 2004, the Corporation determined that \$2,604,368 of rebates was due to the U. S. Treasury.

NOTE K – CONDUIT DEBT OBLIGATIONS

From time to time, the Corporation has issued Revenue Bonds to provide financial assistance to private sector entities for the acquisition and rehabilitation of multifamily rental housing developments. These bonds are special limited obligations of the Corporation, payable solely from and secured by a pledge of payments on the mortgage-backed securities. Neither the Corporation, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. The bonds are reported as liabilities in the accompanying financial statements along with the related assets.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE K – CONDUIT DEBT OBLIGATIONS (continued)

As of June 30, 2004, there were three series of Conduit Revenue Bonds outstanding, with an aggregate principal amount payable of \$32,006,849 reported as Multifamily Housing Revenue bonds.

NOTE L – LEASES

Lease Commitments

The Corporation leases land, buildings, and improvements under various noncancellable operating leases expiring at various dates through 2056. The land lease for the Banyan Street Manor Project contains the option to purchase the fee-simple interest in the land at any time for a specified percentage of fair market value at the time of purchase.

The minimum rental commitments under operating leases through 2009 and in five-year increments thereafter are as follows:

Year ending June 30,	
2005	\$617,000
2006	628,000
2007	640,000
2008	652,000
2009	556,000
2010 – 2014	2,592,000
2015 – 2019	2,957,000
2020 – 2024	3,297,000
2025 – 2029	3,635,000
2030 – 2034	3,759,000
2035 – 2039	4,003,000
2040 – 2044	4,367,000
2045 – 2049	4,803,000
2050 – 2054	5,240,000
2055 – 2056	2,096,000
	<u>\$39,842,000</u>

Rent expense for the year ended June 30, 2004 totaled approximately \$603,000.

Lease Rentals

The Corporation leases land with a carrying value of approximately \$20,089,000 to various developers and home buyers. The leases are generally for 55 years with the last 25 years' lease rent negotiated based on the fair market value of the land. Rent income for the year ended June 30, 2004 was approximately \$330,000.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE L – LEASES (continued)

Lease Rentals (continued)

The future minimum lease rent from these operating leases at June 30, 2004 is as follows:

Year ending June 30:	
2005	\$277,000
2006	194,000
2007	176,000
2008	175,000
2009	172,000
2010 – 2014	861,000
2015 – 2019	793,000
2020 – 2024	517,000
	<hr/>
	\$3,165,000
	<hr/>

NOTE M – COMMITMENTS AND CONTINGENCIES

Loan Guarantee

The Corporation has guaranteed up to \$40,000,000 of the mortgage loans sold by it to the Employees' Retirement System of the State of Hawaii (ERS). Upon the 120th day of any delinquency or default, the Corporation is obligated to cure the arrearage of principal and interest or buy back the delinquent loan. At June 30, 2004, the outstanding balance of mortgage loans that have been sold to the ERS which are covered by the loan guarantee was approximately \$485,000. At June 30, 2004, notes and loans receivables did not include any delinquent loans purchased back from the ERS.

Construction Contracts

At June 30, 2004, the Dwelling Unit Revolving Fund had outstanding commitments to expend approximately \$16,177,000 for the construction and renovation of housing projects and there were no outstanding commitments to fund interim loans for various projects.

The Capital Projects Fund and the Fiduciary Funds had outstanding construction contract commitments of approximately \$13,317,000 at June 30, 2004.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Development Costs

The Kapolei development project primarily consists of eight residential villages and certain commercial parcels spread over approximately 888 acres of land. As of June 30, 2004, seven villages have been substantially completed and sold. The estimated future cost of land sold relates primarily to the completion of certain off-site improvements at this project. This liability reflects amounts charged to the cost of land sold in excess of costs incurred. Management believes that the future revenues from this project will meet or exceed the net amount of this liability and the remaining costs to be incurred on the project. Accordingly, no provision for losses on real estate has been recorded on this project in the accompanying financial statements.

Additionally, the Corporation has been in the process of developing two master planned communities on the neighbor islands - the Leiali'i project located in the West Maui area and the La'i'opua project located in North Kona. As a large portion of these sites are located on public trust ("ceded") land owned by the State of Hawaii, these projects have been indefinitely delayed. As discussed further below, the Corporation is a defendant in two lawsuits that seek injunctive relief barring the Corporation from the sale or transfer of ceded lands.

The Corporation's Board of Directors previously approved funding of development costs for the Leiali'i and La'i'opua projects of approximately \$68,000,000 and \$40,600,000, respectively. As of June 30, 2004, approximately \$41,600,000 has been expended on the Leiali'i project, net of approximately \$1,370,000 from the County of Maui for the wastewater system design and water system and \$1,753,000 from the State Department of Transportation (DOT) for certain expenditures. As of June 30, 2004, approximately \$15,579,000 has been expended on the La'i'opua project, net of approximately \$10,000,000 of reimbursements from DOT for certain expenditures.

During the year ended June 30, 2004, due to the uncertainty of the ceded land lawsuits and estimated losses on these projects, management recorded a provision for losses on real estate of approximately \$9,027,000 for the Leiali'i project and approximately \$15,579,000 (costs incurred to date) for the La'i'opua project. The Corporation's provision for losses was based on estimates of future sales prices and development costs, as well as a favorable outcome of the ceded land lawsuits. Accordingly, it is reasonably possible that the Corporation's estimates will change and the remaining development costs of the Leiali'i project may be reduced materially in the near term. The Corporation has remaining development costs in progress of approximately \$32,635,000 for the Leiali'i project as of June 30, 2004.

Also during the year ended June 30, 2004, an additional provision for loss on real estate of approximately \$17,332,000 was recorded to write off the Corporation's costs incurred to date related to Waiahole Valley on Oahu. This estimated loss is based on the Corporation's intended disposition and continuing losses incurred at this project.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Torts

The Corporation is involved in various actions, the outcome of which, in the opinion of management and the Attorney General, will not have a material adverse effect on the Corporation's financial position except for the OHA lawsuit described below. Losses, if any, are either covered by insurance or will be a liability against the State of Hawaii.

Workers' Compensation Policy

The Corporation has a retrospectively rated workers' compensation insurance policy. Based on available claim experience information, the minimum premium accrued for financial statement reporting purposes approximates the Corporation's ultimate workers' compensation cost.

Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limitation. It may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System of the State of Hawaii (ERS). Accumulated sick leave at June 30, 2004 amounted to approximately \$5,752,000.

Deferred Compensation Plan

In 1984, the State established a deferred compensation plan, which enables State employees to defer a portion of their compensation. The State Department of Human Resources Development has the fiduciary responsibility of administering the plan. Deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

Litigation

In November 1994, the Office of Hawaiian Affairs (OHA) filed a claim against the Corporation seeking declaratory and injunctive relief and for monetary damages pursuant to Sections 632-1 and 66-1 of the Hawaii Revised Statutes. The claim relates to certain ceded lands located in Lahaina, Maui. OHA seeks the following relief: (1) barring the Corporation from conveying and alienating the subject land from the public land trust and (2) finding any conveyance to a third party not an agency of the State or its political subdivision in violation of the Hawaii State Constitution.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Litigation (continued)

In its claim, OHA also alleges that the Corporation is in violation of the Hawaii Revised Statutes Section 10-3.6 and Act 318, SLH 1992. In 1992, the Legislature enacted Act 318, which sets forth a plan to compensate OHA for land from the public land trust which was to be conveyed from the State Department of Land and Natural Resources (DLNR) to the Corporation for housing developments. Under Act 318, OHA is to be compensated 20% of the fair market value of ceded lands. OHA maintains that the fair market value of the Lahaina ceded lands was determined in May 1994. In November 1994, the ceded lands were conveyed from DLNR to the Corporation and a check for 20% of the fair market value of the property in the amount of \$5,573,604 was presented to OHA. OHA claims that a timely appraisal was not performed, 90 days before the date of conveyance, and that the conveyance of the Lahaina property was illegal. The payment was rejected by OHA and a liability remains outstanding as of June 30, 2004. In the event that OHA is not granted the injunctive and declaratory relief it seeks, OHA requests for a timely re-appraisal of the fair market value of the Lahaina ceded lands and payment in accordance with Act 318. The Corporation maintains that the fair market value was determined in August 1994 and therefore complies with the requirements of Act 318.

In November 1994, several individuals filed a claim similar to the OHA claim against DLNR and the Corporation seeking to enjoin the sale or transfer of certain ceded lands located in Lahaina, Maui, from the State to private individuals or entities. The claim alleges that the State does not have good marketable title of the ceded lands and any such sale or transfer would constitute an illegal conversion of lands. The plaintiffs seek an injunctive relief barring the Corporation from sale or transfer of the Lahaina ceded lands.

In response to the above claims, the State Department of Attorney General issued, in July 1995, its opinion as to whether the State has legal authority to sell or dispose of ceded lands. The Attorney General concluded that the State has been and remains empowered to sell trust lands subject to the terms of the trust.

The above claims have resulted in delays in the Leialii and La'opua Master Planned Community projects. The Corporation is presently evaluating alternatives and remains optimistic and committed to these projects. The Corporation will continue to work with innovation and creativity to resolve these concerns fairly, while still delivering quality houses in quality communities.

In 1994, an action was filed by OHA against the State and various unnamed parties claiming the State's alleged failure to properly account for and pay to OHA monies due to OHA, under Article XII of the Hawaii State Constitution and Chapter 10 of the Hawaii Revised Statutes, for occupation by the State on certain ceded lands, as more fully described below.



Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Litigation (continued)

In December, 2002, following a trial on the issues, the trial court confirmed the State's authority to sell ceded lands, denied the declaratory ruling that the sale of ceded lands did not directly or indirectly release or limit Hawaiian's claims to those lands which the plaintiffs requested, and ordered that judgment be entered in the State's and Corporation's favor as to Counts I, II, and III of the Amended Complaint. The plaintiffs moved for and were granted leave to file immediate appeals from the court's rulings to the Hawaii Supreme Court. Those appeals are now pending. Trial to determine the sufficiency of the proceeds paid to OHA by the Corporation and the State from the sale of ceded lands at issue has not been scheduled.

The ultimate outcome of appeal cannot presently be determined. Accordingly, no provision for any liability nor its effect on the projects' net realizable value, if any, that may result upon adjudication, has been made in the accompanying statement of net assets.

It has been alleged but without certainty that payments received by the Corporation for all projects developed on ceded lands are subject to the above claim. However, the ultimate outcome of the litigation and its effect on the Corporation, if any, cannot presently be determined. Accordingly, no provision for any liability, if any, that may result from the resolution of this matter has been made in the statement of net assets.

In May 2004, public housing tenants filed a claim against the Corporation seeking declaratory and injunctive relief pursuant to U.S.C. §2201-02 & Rule 65 of the Federal Rules of Civil Procedure to adjust the Corporation's utility allowances to reflect changes in utility costs. The claim relates to the requirement per United States Housing Act, 42 U.S.C. §1437(a)(1), which requires that shelter costs for tenants residing in federally subsidized public housing projects do not exceed 30% of tenant income.

The plaintiffs allege the Corporation has failed to review or update the utility allowances for all projects since 1997. In establishing the utility allowances, the Corporation must annually review the utility allowances and make adjustments to reflect changes in the basis upon which the allowances are based. Additionally, where there is a change in the rates upon which the allowance is based of greater than 10%, the Corporation must make interim adjustments to its allowances. Also, the plaintiffs allege that since its last updated utility allowance, utility rates have increased substantially resulting in inadequate utility allowances and rent charges in excess of 30% of tenant income.

In August 2004, public housing disabled tenants filed a similar claim alleging the Corporation's failure to provide appropriate utility allowance as required by federal law and HUD regulations.

The ultimate outcome of the litigation and its effect on the Corporation, if any, cannot be presently determined. Accordingly, no provision for any liability, if any, that may result from the resolution of this matter has been made in the statement of net assets.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands

OHA et al. v. State of Hawaii, Civil No. 94-0205-01 (First Circuit)

The lands transferred to the United States by the Republic of Hawaii at Hawaii's annexation to the United States in 1898 are commonly referred to as the ceded lands. Upon Hawaii's admission to the Union in 1959, title to ceded lands still held by the United States and to lands, which the United States acquired, by exchange for ceded lands after 1898 was conveyed by the United States to the State of Hawaii. Section 5 of the Admission Act expressly provided that those lands were to be held by the State as a public trust. Certain rental housing projects of the Corporation are situated on parcels of land, which are to be held by the State as a public trust under Section 5.

In 1979, the State legislature (the "Legislature") adopted HRS Chapter 10 ("Chapter 10,"), which, as amended in 1980, specified, among other things, that OHA expend 20% of all funds derived by the State from the Ceded Lands for the betterment of Native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987) ("Yamasaki"), the Hawaii Supreme Court concluded that Chapter 10 was insufficiently clear regarding the amount of monies OHA was entitled to receive from the public trust lands.

In 1990, in response to Yamasaki, the Legislature adopted Act 304, Session Laws of Hawaii 1990, which (i) defined "public land trust" and "revenue," (ii) reiterated that 20% of the now defined "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (iii) established a process for OHA and the Director of Finance of the State jointly to determine the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the period June 16, 1980 through June 30, 1991. Since fiscal year 1992 and until the first quarter of fiscal year 2002, the State, through its departments and agencies paid 20% of "revenues" to OHA on a quarterly basis.

On January 14, 1994, OHA filed suit against the State alleging that the State failed to properly account for and fully pay the pro rata share of proceeds and income derived from the lands of public trust established by the Admission Act and the 1978 amendments to the State Constitution. OHA seeks an accounting of all proceeds and income, funds and revenues derived from the lands since 1978, and restitution or damages amounting to 20% of the proceeds and income derived from (a) the lands since November 7, 1978, (b) the lands since June 16, 1980, and (c) the lands under Act 304, Session Laws of Hawaii 1990, as well as interest thereon. The State has denied all of OHA's substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued)

OHA et al. v. State of Hawaii, Civil No. 94-0205-01 (First Circuit) (continued)

In May 1996, OHA filed four motions for partial summary judgment as to the State's liability to pay OHA 20% of monies from four specific sources, including rental housing projects of the Corporation situated on public trust lands. The State opposed those four motions. The State also filed a motion to dismiss on sovereign immunity grounds.

On October 24, 1996, the Circuit Court of the First Circuit of the State of Hawaii (First Circuit Court) denied the State's motion to dismiss and granted OHA's four motions for partial summary judgment. The State has filed an interlocutory appeal to the Hawaii Supreme Court from both orders. All other proceedings have been stayed pending the Hawaii Supreme Court's disposition of the appeal.

OHA's complaint and motions do not specify the State's alleged failures, nor do they state the dollar amount of the claims. The First Circuit Court's October 24, 1996 order granting OHA's motions for partial summary judgment did not determine the amounts owing. The basis and methodology for calculating any such amount are being disputed. OHA has not provided complete information for its claims for the period from 1981 through 1991, and has provided no information as to its claims for the period from 1991 to the present. The expert witness retained by OHA in this case has estimated that the State's potential liability for the four sources specified in OHA's summary judgment motions for the years 1981 through 1991 (but not thereafter) to be not less than \$178,000,000, of which approximately \$9,200,000 is related to gross rental income derived by the Corporation.

On June 30, 1997, the Governor approved Act 329, Session Laws of Hawaii, 1997. The purpose of this Act was to achieve a comprehensive, just and lasting resolution of all controversies relating to the proper management and disposition of the lands subject to public trust, and of the proceeds and income, which the lands generate. The Act also fixes the amount of proceeds and income OHA will receive during the two-year period at \$15.1 million per year, and requires the completion, continued maintenance, and use of a comprehensive inventory of the public trust lands.

On September 12, 2001 the Hawaii Supreme Court concluded by holding that Act 304 was effectively repealed by its own terms, and that there was no judicial management standard, by which to determine whether OHA was entitled to the revenues it sought because the repeal of Act 304 revived the law which the court in Yamasaki had previously concluded was insufficiently clear to establish how much OHA was entitled to receive. The Supreme Court dismissed this case for lack of justiciability. Immediately thereafter, agencies ceased paying OHA any receipts from the ceded lands.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued)

OHA et al. v. State of Hawaii, Civil No. 94-0205-01 (First Circuit) (continued)

The Legislature took no action during the 2002 and 2003 legislative sessions to establish a new mechanism for establishing how much OHA was to receive. On January 23, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring receipts from the ceded lands to OHA. During the 2003 legislative session, the Legislature appropriated moneys from the various funds into which the ceded lands receipts had been deposited and directed the agencies to pay them to OHA. During the 2004 legislative session, the Legislature did not appropriate any moneys from the various funds. OHA continues to pursue its claims for a portion of the revenues from the ceded lands.

OHA et al. v. HHA et al., Civil No. 95-2682-07 (First Circuit)

On July 27, 1995, OHA filed suit against the Hawaii Housing Authority and the State Director of Finance to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of ceded lands, which were transferred to the Authority for rental housing projects. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal.

The State's potential liability, if any, therefore, may be determined either (1) by the ruling by the Hawaii Supreme Court on the State's interlocutory appeal and, if such ruling is adverse to the State, the conclusion of any subsequent trial and related appeals, or (2) by legislation enacted as a result of the process set out in Act 329. Given all of the above, and the uncertain timing of any final disposition of the case, the State is not able to predict either the ultimate outcome of the case, or the magnitude of its potential liability, if any, with any reasonable certainty. A legislative resolution or judicial decision adverse to the State could have a material adverse effect on the State's financial condition.

A legislative resolution or judicial decision adverse to the State could have a material adverse effect on the Corporation's financial condition if an adverse resolution or decision against the State includes liability for gross rental income derived by the Corporation from rental housing projects situated on lands in the public trust and the liability is imposed upon the Corporation. However, the ultimate outcome of the litigation and its effect on the Corporation, if any, cannot be determined. Accordingly, no estimate of loss has been made in the accompanying statement of net assets of the Corporation.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

HUD Examination

In September 2002, HUD conducted a limited review of the Corporation's policies and procedures over procurement and contracting and the obligation and expenditure of Comprehensive Grant and Capital Fund Program funds. Based on the results of this limited review, HUD found several findings in these areas. The findings include the improper procurement of a construction contract totaling approximately \$771,000 to a construction company for repairs and maintenance of a housing project operated by the Corporation. During the fiscal year 2004, the Corporation made a payment to HUD of \$771,000 for the amounts paid under the construction contract.

In connection with this review, in September 2002, HUD issued a Corrective Action Order (CAO) for the Corporation. The CAO required that the Corporation contract an independent consultant to perform an assessment to identify improvements in its operations as well as required additional documentation be provided to HUD prior to execution of certain contracts and contract modifications. The Corporation's failure to comply with the terms of the CAO may result in further sanctions against the Corporation and other remedies as provided by law.

In September 2002, HUD issued a Request for Proposal (RFP) on behalf of the Corporation, and in December 2002, selected a consultant to conduct an independent assessment and a physical needs assessment.

In April 2003, the consultant issued its Independent Assessment report on the Corporation's Federal Public Housing Program and made recommendations addressing management, organizational, and operational issues and concerns.

The consultant also completed the Physical Needs Assessment (PNA) study in September 2003 and provided the deliverables as specified in the contract, which included a detailed PNA report of each federal housing project; a Master Executive Summary, a database of inspection results, and a long-range portfolio plan.

The Corporation has developed corrective action strategies with HUD's Honolulu office in response to the HUD findings, which management believes will compliment the Corporation's current financial condition and operations. If efforts are unsuccessful, the results could have a material impact upon the Corporation's financial condition or results of operations.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Memorandum of Agreement with HUD

In accordance with the provisions of its Low Rent Public Housing Annual Contribution Contract with HUD, if the Corporation's performance evaluation results in a designation as a "troubled" public housing agency, as defined by the provisions of Public Housing Assessment System (PHAS) as codified at 24 CFR Part 902, the Corporation must enter into a binding contractual agreement designated as a Memorandum of Agreement (MOA) with HUD for the purpose of improving its performance.

On September 30, 2004, the Corporation and HUD entered into an MOA, thereby requiring the Corporation to comply with certain terms and conditions, including but not limited to meeting certain performance targets, implementing prescribed strategies, and meeting certain timelines for improvement, including written progress reports. Failure by the Corporation to achieve the terms and conditions of the MOA may result in HUD's imposition of sanctions such as the imposition of budget and management controls by HUD or the declaration of substantial default and subsequent actions, which may include referral to the Department of Enforcement Center (DEC) for judicial appointment of a receiver, limited denial of participation, suspension, debarment, or other actions deemed appropriate by the DEC.

NOTE N – RETIREMENT PLAN

Employees' Retirement System

Plan Description

All eligible employees of the State and Counties are required by Chapter 88 of the Hawaii Revised Statutes to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for ERS. That report may be obtained from them.

The ERS consists of a contributory plan and a noncontributory plan. Employees covered by Social Security on June 30, 1984 were given the option of joining the noncontributory plan or remaining in the contributory plan. All new employees hired after June 30, 1984, who are covered by Social Security, are generally required to join the noncontributory plan. Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE N – RETIREMENT PLAN (continued)

Employees' Retirement System (continued)

date is based on the three highest paid years of service excluding the vacation payment. All benefits vest after five and ten years of credited service for the contributory and noncontributory plans, respectively. All contributions, benefits and eligibility requirements are governed by Chapter 88.

Funding Policy

Most covered employees of the contributory plan are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the department of the prosecuting attorney and the attorney general, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. The actuarial cost or funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Under this method, the total employer contributions to the ERS is comprised of normal cost plus level annual payments required to amortize the unfunded actuarial accrued liability over the closed period ending June 30, 2029.

There was approximately \$1,064,000 of employer contributions (contributory and non-contributory) for the year ended June 30, 2004.

NOTE O – POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to providing pension benefits, the State provides certain health care and life insurance benefits to all employees hired prior to July 1, 1996 who retire from State employment on or after attaining age 62 with at least ten years of service or age 55 with at least thirty years of service under the noncontributory plan and age 55 with at least five years of service under the contributory plan. Retirees credited with at least ten years of service excluding sick leave credit qualify for free medical insurance premiums; however, retirees with less than ten years must assume a portion of the monthly premiums. All service-connected disability retirees who retired after June 30, 1984, with less than ten years of service also qualify for free medical insurance premiums. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 is also available. Retirees covered by the medical portion of Medicare are eligible to receive a reimbursement of a portion of the basic medical coverage premiums.

For employees hired after July 1, 1996 and retire with fewer than twenty-five years of service, the State shall pay to a fund a monthly contribution equal to one-half of the retired employee's monthly Medicare or non-Medicare premium for certain medical benefits for retired employees with ten or more years of service; and seventy-five percent of the retired employee's monthly Medicare or non-Medicare premium for retired employees with at least fifteen but fewer than twenty-five years of service.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE O – POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (continued)

Contributions are based upon negotiated collective bargaining agreements, and are funded by the Corporation as accrued.

The Corporation's general fund share of the post-retirement benefits expense for the year ended June 30, 2004 has not been separately computed and is not reflected in the Corporation's financial statements. The Corporation's enterprise funds' and special revenue funds' share of the post-retirement health care and life insurance benefits expense for the year ended June 30, 2004 approximated \$864,000 and is included in the financial statements.

NOTE P – RELATED PARTY TRANSACTIONS

In accordance with Act 95, SLH 1996, the Corporation transferred certain parcels of land located within the Villages of La'i'opua on the island of Hawaii, and Kapolei on the island of Oahu to the State Department of Hawaiian Home Lands (DHHL). The properties were conveyed in 1997 and approximately \$11,816,500 of allocated costs were charged against contributed capital as of June 30, 2003. During 2004, the Corporation recognized the remaining allocated project costs of approximately \$6.9 million as operating transfers out. Previously, future costs of these parcels were recognized as contributions returned to the State of Hawaii when costs were incurred.

The estimated allocated project costs of these parcels of land as of June 30, 2004 are approximately as follows:

La'i'opua	\$ 1,830,000
Kapolei	<u>16,910,000</u>
	<u>\$18,740,000</u>

The Rental Assistance Fund and Section 8 Existing and Housing Voucher Programs provide rent subsidies to certain lessees of the Corporation's various projects. Total rent subsidies provided to lessees of the Corporation's various projects approximated \$1,238,000 and \$467,000 respectively, during the year ended June 30, 2004. These amounts have been recorded by the Corporation as rental income in the Rental Housing System Revenue Bond Fund (RHS), SHARP, Banyan Street Manor Project, Wilikina Apartments Project, and Kekumu at Waikoloa Project. In addition, the Corporation relocated its offices to the Pohulani building in September 1992, which is owned by the RHS. During the year ended June 30, 2004, the RHS recorded rental income of approximately \$875,000, which was allocated as office rental expense to various funds of the Corporation. In addition, the State Department of Accounting and General Services (DAGS) incurred \$879,000 in rent to the RHS for leased space in the Pohulani



Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE P – RELATED PARTY TRANSACTIONS (continued)

building. The term of the lease with DAGS is from September 1992 through August 2022. The minimum annual rental is determined by multiplying the previous year's minimum annual rent by one hundred three percent (103%). During 2004, the minimum annual rent to DAGS reflected \$653,000.

The contributed capital of the Dwelling Unit Revolving Fund was funded with proceeds of \$125,000,000 of State general obligation bonds, for which the principal payments are being funded by the State of Hawaii General Fund. These bonds are the State's general obligation and are not included in the statement of net assets. The Dwelling Unit Revolving Fund, however, is required to reimburse the State of Hawaii General Fund for the interest portion of the debt service, at rates ranging from 3.85% to 5.50%. During the 2004 fiscal year, the general obligation bonds funds were paid off.

In accordance with Act 178, SLH 2003, effective July 1, 2003, the functions and net assets of the Homes Revolving Fund were transferred to the Dwelling Unit Revolving Fund. Of the approximately \$16,163,000 of net assets transferred out of the Homes Revolving Fund, approximately \$11,134,000 of assets and liabilities were transferred to the Dwelling Unit Revolving Fund.

In addition, the Corporation transferred the following amounts to the State of Hawaii General Fund:

<u>Fund</u>	<u>Amount</u>
Dwelling Unit Revolving Fund	\$15,000,000
Homes Revolving Fund	5,029,000
Housing Finance Revolving Fund	3,000,000
Teacher Housing Revolving Fund	<u>400,000</u>
Total	<u>\$23,429,000</u>

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE Q – SEGMENT INFORMATION

In addition to the revenue bond funds reported as major proprietary funds, the Corporation has also issued revenue bonds to finance multifamily rental housing projects and provide interim and/or permanent financing for the construction or rehabilitation of affordable rental housing projects. Investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment.

Condensed Statement of Net Assets  
(\$ in thousands)

	Multifamily Housing Revenue Bond Fund	State of Hawaii Affordable Rental Program	University of Hawaii Faculty Housing Program Revenue Bond Fund
Assets:			
Cash	\$ —	\$ 507	\$ 343
Investment in financing lease	—	—	17,301
Receivables	1,836	236	24
Assets held by trustees	32,604	20,774	—
Capital assets, net	—	37,341	—
Other assets	—	449	318
Total assets	<u>\$ 34,440</u>	<u>\$59,307</u>	<u>\$17,986</u>
Liabilities:			
Bonds payable	\$ 32,007	\$36,840	\$15,445
Note payable	—	3,500	—
Other liabilities	518	662	220
Total liabilities	<u>32,525</u>	<u>41,002</u>	<u>15,665</u>
Net assets:			
Invested in capital assets, net of related debt	—	(2,591)	—
Restricted	32,604	20,774	—
Unrestricted	(30,689)	122	2,321
Total net assets	<u>1,915</u>	<u>18,305</u>	<u>2,321</u>
Total liabilities and net assets	<u>\$ 34,440</u>	<u>\$59,307</u>	<u>\$17,986</u>

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE Q—SEGMENT INFORMATION (continued)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets  
(\$ in thousands)

	Multifamily Housing Revenue Bond Fund	State of Hawaii Affordable Rental Program	University of Hawaii Faculty Housing Program Revenue Bond Fund
Revenues			
Interest	\$ 127	\$ —	\$807
Rental	—	3,555	—
Other	64	167	—
Total revenues	191	3,722	807
Expenses			
Project	—	1,089	—
Depreciation	—	1,559	—
Interest	1,860	—	—
Other operating expenses	100	268	19
Total expenses	1,960	2,916	19
Operating (loss) income	(1,769)	806	788
Nonoperating income (expenses)			
Interest income	1,827	140	—
Net decrease in fair value of investments	(1,723)	—	—
Interest expense	—	(738)	(872)
Other	(7)	(221)	16
Total nonoperating income (expenses)	97	(819)	(856)
Change in net assets	(1,672)	(13)	(68)
Net assets at July 1, 2003	3,587	18,318	2,389
Net assets at June 30, 2004	\$ 1,915	\$18,305	\$2,321

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE Q—SEGMENT INFORMATION (continued)

Condensed Statement of Cash Flows  
(\$ in thousands)

	Multifamily Housing Revenue Bond Fund	State of Hawaii Affordable Rental Program	University of Hawaii Faculty Housing Program Revenue Bond Fund
Net cash (used in) provided by:			
Operating activities	\$ (1,478)	\$ 2,089	\$ 1,255
Capital and related financing activities	(642)	(991)	(1,236)
Investing activities	2,123	(73)	—
Net increase in cash and cash equivalents	3	1,025	19
Cash and cash equivalents at July 1, 2003	3	17,022	324
Cash and cash equivalents at June 30, 2004	\$ 6	\$18,047	\$ 343

NOTE R – INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2004 is as follows:

Due from	Housing Voucher Program	Section 8	Dwelling Unit Revolving Fund	Federal Low Rent Program	Nonmajor – Proprietary
Homes Revolving Fund	\$ -	\$ -	\$ -	\$ -	\$ -
Housing Voucher Program	-	-	-	837	1,454,323
Section 8	-	-	-	154	37,229
Dwelling Unit Revolving Fund	-	-	-	-	2,260
Single Family	-	-	-	39	6,101
Federal Low-Rent Program	-	-	18,496	166,109	1,402,309
Rental Housing System	-	-	-	301	436
Nonmajor – Proprietary	1,705,000	832,671	415,000	3,323,045	3,066,483
Nonmajor – Government	-	-	-	-	2,629
TOTAL	\$1,705,000	\$832,671	\$ 433,496	\$3,490,485	\$5,971,770

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE R – INTERFUND RECEIVABLES AND PAYABLES (continued)

All other balances are due to interfund goods or services provided or reimbursable expenditures and payments between funds.

NOTE S – RESTATED BEGINNING NET ASSETS

The financial statements of the Corporation's Homes Revolving Fund as of June 30, 2003 have been restated to reflect a correction in the computation of the liability for the estimated future costs of land sold. This liability reflects amounts charged to the cost of land sold in excess of costs incurred for a certain real estate project. Amounts charged to the cost of land sold are determined using the relative sales value method, which requires management to allocate the total estimated cost of developing a real estate project relative to the total estimated revenues of the individual parcels as of a consistent point in time. During 2003, the total estimated development costs for this project were allocated using historical sales prices for sold parcels and current estimated sales prices for unsold parcels. Due to improvements in current estimated sales prices relative to historical sales prices, this allocation basis resulted in a reduction of approximately \$4,555,000 to the estimated future cost of land sold as of June 30, 2003 as well as the related cost of land sold for the year then ended. The effect of the restatement is to increase the liability for the estimated future cost of land sold and decrease the net asset of the Homes Revolving Fund as of June 30, 2003.

NOTE T – SUBSEQUENT EVENTS

Subsequent to the payment of \$1,790,000 of scheduled bond redemptions on July 1, 2004, the Corporation consolidated SHARP into the Rental Housing System Revenue Bond Fund and issued revenue bonds for the combined program of \$107,055,000. The proceeds of these revenue bonds, net of bond issuance costs, together with certain amounts held by the trustees of these programs, were used to redeem the remaining outstanding revenue bonds of SHARP and the Rental Housing System Revenue Bond Fund.

On July 1, 2004, the Corporation redeemed \$23,610,000 of outstanding revenue bonds from the Single Family Mortgage Purchase Revenue Bond Fund, including \$17,745,000 of early redemptions.

Act 52, SLH 2004, provided for the transfer of approximately \$10,000,000 from the Corporation's Dwelling Unit Revolving Fund to the State of Hawaii General Fund. As of report date, the Corporation has not transferred the amount stated to the State of Hawaii General Fund.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE U – NEW PRONOUNCEMENTS FOR FINANCIAL REPORTING

The Governmental Accounting Standards Board (GASB) has issued the following Statements applicable to the Corporation:

- Statement No. 40 “Deposit and Investment Risk Disclosures – An Amendment of GASB Statement No. 3”, updates the custodial credit risk disclosure requirements of GASB Statement No. 3 and establishes more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments and is effective for financial statements for the period beginning after June 15, 2004. This Statement is not expected have a material effect on the Corporation’s financial statements.
- Statement No. 42 “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries”, establishes accounting and financial reporting standards for the impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries. This Statement is effective for financial statements for periods beginning after December 15, 2004 and is not expected to have a material effect on the Corporation’s financial statements.
- Statement No. 45 “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities/assets, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. This Statement is effective for financial statements periods beginning after December 15, 2007. The Corporation has not yet analyzed the potential effect on the financial statements, if any, of adopting Statement No. 45.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Housing and Community Development Corporation of Hawaii

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -  
MAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2004

		General Fund		
		Original budget	Final budget	Budgetary Actual
Revenues				
	State allotted appropriations	\$ 7,142,371	\$ 7,142,371	\$ 6,945,297
Expenditures				
	Homeless service and assistance program	4,914,387	4,914,387	4,864,946
	Rental housing and assistance program	2,227,984	2,227,984	2,080,351
EXCESS OF REVENUES OVER EXPENDITURES		\$ -	\$ -	\$ -
		Housing Voucher Program		
		Original budget	Final budget	Budgetary Actual
Revenues				
	HUD contributions	\$ 19,216,431	\$ 17,948,757	\$ 17,775,847
Expenditures				
	Rental housing and assistance program	19,216,431	17,948,757	17,973,310
EXCESS OF REVENUES OVER EXPENDITURES		\$ -	\$ -	\$ (197,463)



Housing and Community Development Corporation of Hawaii

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -  
MAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2004

	Section 8 Contract Administration		
	<u>Original budget</u>	<u>Final budget</u>	<u>Budgetary Actual</u>
Revenues			
HUD contributions	<u>\$ 44,991,739</u>	<u>\$ 41,290,605</u>	<u>\$ 18,621,105</u>
Expenditures			
Rental housing and assistance program	<u>44,991,739</u>	<u>41,290,605</u>	<u>18,688,275</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (67,170)</u></u>

Housing and Community Development Corporation of Hawaii

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -  
BUDGET-TO-GAAP RECONCILIATION

Year ended June 30, 2004

	<u>General Fund</u>	<u>Housing Voucher Program</u>	<u>Section 8 Contract Administration</u>
Excess of revenues over expenditures and other sources and uses - actual on budgetary basis	\$ -	\$ (197,463)	\$ (67,170)
Reserve for encumbrance at year end*	732,581	-	-
Expenditures for liquidation of prior years's encumbrances	(525,936)	-	-
Reversion of prior year's allotments	(38,978)	-	-
Accrual adjustments and other	<u>(166,431)</u>	<u>(62,728)</u>	<u>15,045</u>
Excess of revenues over expenditures and other uses - US GAAP basis	<u>\$ 1,236</u>	<u>\$ (260,191)</u>	<u>\$ (52,125)</u>

\* Amount reflects the encumbrance balance included in continuing appropriation.

## SUPPLEMENTARY INFORMATION

Housing and Community Development Corporation of Hawaii

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS

June 30, 2004

ASSETS	Drug Elimination Program				Shelter Plus Care		HOPWA Program		Other		Total	
Current Assets												
Cash	\$	221	\$	16	\$	74	\$	42	\$	353		
Due from HUD		-		-		14,472		107,139		121,611		
TOTAL ASSETS	\$	221	\$	16	\$	14,546	\$	107,181	\$	121,964		
LIABILITIES AND FUND BALANCES												
Current Liabilities												
Accounts payable	\$	-	\$	-	\$	14,271	\$	104,711	\$	118,982		
Due to other funds		-		-		201		2,428		2,629		
Due to HUD		221		16		74		42		353		
Total current liabilities		221		16		14,546		107,181		121,964		
Fund balances												
Unreserved		-		-		-		-		-		
Total fund balances		-		-		-		-		-		
TOTAL LIABILITIES AND FUND BALANCES	\$	221	\$	16	\$	14,546	\$	107,181	\$	121,964		

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2004

	Drug Elimination Program	Shelter Plus Care	HOPWA Program	Other	Total
Revenue					
Intergovernmental – HUD annual contributions and others	\$ 656,279	\$ 222,977	\$ 181,269	\$ 1,258,015	\$ 2,318,540
Total revenues	656,279	222,977	181,269	1,258,015	2,318,540
Expenditures					
Current					
Housing assistance payments	-	-	-	84,964	84,964
Personal services	58,242	-	-	-	58,242
Administration	598,037	222,977	181,269	1,173,051	2,175,334
Professional services	-	-	-	-	-
Repairs and maintenance	-	-	-	-	-
Insurance	-	-	-	-	-
Other	-	-	-	-	-
Total expenditures	656,279	222,977	181,269	1,258,015	2,318,540
NET CHANGE IN FUND BALANCES	-	-	-	-	-
Fund balance at July 1, 2003	-	-	-	-	-
Fund balance at June 30, 2004	\$ -	\$ -	\$ -	\$ -	\$ -

## COMBINING STATEMENT OF NET ASSETS -- NONMAJOR ENTERPRISE FUNDS

June 30, 2004

ASSETS	Revenue			Miscellaneous		Total
	Bond Funds	Other Funds	Funds			
Current assets						
Cash	\$ 850,073	\$ 4,454,261	\$ 48,389,788		\$ 53,694,122	
Investments	-	-	-		-	
Receivables						
Mortgage loans	31,455	-	452,746		484,201	
Accrued interest	111,224	19,448	1,724,028		1,854,700	
Tenant receivables, less allowance for doubtful accounts	22,670	312,776	-		335,446	
Other	225,037	20,147	18,909		264,093	
	390,386	352,371	2,195,683		2,938,440	
Due from other funds	-	765,483	4,881,287		5,646,770	
Due from State of Hawaii	-	-	846		846	
Due from HUD	-	20,310	-		20,310	
Inventories						
Materials and supplies	-	51,127	101,465		152,592	
Net investment in financing lease	460,545	-	-		460,545	
Prepaid expenses and other assets	41,254	76,903	53,737		171,894	
Deposits held in trust	-	97,768	6,898		104,666	
Deferred bond discount and issuance costs	44,559	-	-		44,559	
Total current assets	1,786,817	5,818,223	55,629,704		63,234,744	
Assets held by trustees under Revenue Bond Programs						
Cash	44,311	-	-		44,311	
Investments	53,334,109	-	-		53,334,109	
	53,378,420	-	-		53,378,420	
Investments						
Mortgage loans, net of current portion	-	-	6,756,529		6,756,529	
Notes and loans, net of current portion	1,705,394	-	56,742,692		58,448,086	
Other receivables	-	426,100	-		426,100	
Advances to other funds	-	441,014	260,366		701,380	
Restricted deposits and funded reserves	-	325,000	-		325,000	
Net investment in financing lease, net of current portion	-	7,352,448	-		7,352,448	
Deferred bond discount and issuance costs, net of current portion	16,840,731	-	-		16,840,731	
Capital assets, less accumulated depreciation	681,536	-	-		681,536	
	37,340,843	75,505,123	-		112,845,966	
TOTAL ASSETS	\$ 111,733,741	\$ 89,867,908	\$ 119,389,291		\$ 320,990,940	

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS -- NONMAJOR ENTERPRISE FUNDS (continued)

June 30, 2004

LIABILITIES AND FUND NET ASSETS

	Revenue Bond Funds	Other Funds	Miscellaneous Funds	Total
Current liabilities				
Accounts payable	\$ 105,276	\$ 47,785	\$ 259,041	\$ 412,102
Accrued expenses				
Interest				
Other	1,166,110	71,073	-	1,237,183
Due to other funds	18,842	612,810	210,192	841,844
Due to State of Hawaii	(156,017)	2,386,790	6,889,914	9,120,687
Due to HUD	-	-	25,000	25,000
Security deposits	-	23,346	-	23,346
Mortgage payable	263,208	240,692	376,158	880,058
Revenue bonds payable, less deferred refunding cost	-	114,308	-	114,308
Deferred income	1,070,000	-	-	1,070,000
	-	4,838	-	4,838
Total current liabilities	2,467,419	3,501,642	7,760,305	13,729,366
Arbitrage rebate payable				
Note payable, net of current portion	1,694	-	-	1,694
Mortgage payable, net of current portion	3,500,000	171,327	-	3,671,327
Revenue bonds payable, less deferred refunding cost, net of current portion	-	6,338,346	-	6,338,346
	83,221,849	-	-	83,221,849
Net assets				
Invested in capital assets, net of related debt	(2,591,088)	68,881,142	-	66,290,054
Restricted by legislation and contractual agreements	53,378,420	7,352,448	-	60,730,868
Unrestricted	(28,244,553)	3,623,003	111,628,986	87,007,436
Total net assets	22,542,779	79,856,593	111,628,986	214,028,358
TOTAL LIABILITIES AND NET ASSETS	\$ 111,733,741	\$ 89,867,908	\$ 119,389,291	\$ 320,990,940

## COMBINING STATEMENT OF REVENUES AND EXPENSES -- NONMAJOR ENTERPRISE FUNDS

Year ended June 30, 2004

	Revenue Bond Funds	Other Funds	Miscellaneous Funds	Total
Operating revenues				
Interest on mortgages, notes, loans and mortgage-backed securities	\$ 934,471	-	\$ 1,992,351	\$ 2,926,822
Rental	3,555,408	4,628,073	-	8,183,481
Conveyance tax	-	-	4,608,054	4,608,054
Other	230,924	217,549	4,853,317	5,301,790
Total operating revenues	4,720,803	4,845,622	11,453,722	21,020,147
Operating expenses				
Project	1,089,247	-	3,342,393	4,431,640
Personal services	94,117	1,595,168	1,668,310	3,357,595
Depreciation	1,559,059	2,467,290	-	4,026,349
Housing assistance payments	-	-	1,940,329	1,940,329
Administration	38,931	574,774	272,438	886,143
Provision for losses	40,683	74,399	140,042	255,124
Professional services	37,571	92,151	81,131	210,853
Mortgage insurance	-	5,770	-	5,770
Security	83	50,376	154	50,613
Insurance	265	27,042	822	28,129
Repairs and maintenance	2,890	819,683	8,942	831,515
Utilities	781	1,124,682	-	1,125,463
Capital expenditures	12,920	64,752	3,960	81,632
Interest expense	1,859,632	-	-	1,859,632
Other	158,485	36,526	34,755	229,766
Total operating expenses	4,894,664	6,932,613	7,493,276	19,320,553
Operating income (loss)	(173,861)	(2,086,991)	3,960,446	1,699,594
Nonoperating revenues (expenses)				
Interest income	1,967,301	232,975	643,212	2,843,488
Net decrease in fair value of investments	(1,723,450)	-	(688,660)	(2,412,110)
Interest expense	(1,609,954)	(181,684)	(13,000)	(1,804,638)
Letter of credit fees	(153,716)	-	-	(153,716)
Trustee fees	(63,316)	-	-	(63,316)
Amortization of deferred bond issuance costs	(45,172)	-	-	(45,172)
Loss on disposal of property and equipment	(110)	(150)	-	(260)
Other revenues	50,153	-	-	50,153
Total nonoperating (expenses) revenues	(1,578,264)	51,141	(58,448)	(1,585,571)
Operating transfers in				
Operating transfers out	-	169,451	-	169,451
Total operating transfers in (out)	-	(400,000)	(3,004,692)	(3,404,692)
CHANGE IN NET ASSETS	\$ (1,752,125)	\$ (2,266,399)	\$ 897,306	\$ (3,121,218)



Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CHANGES IN FUND NET ASSETS – NONMAJOR ENTERPRISE FUNDS

Year ended June 30, 2004

	Revenue Bond Funds	Other Funds	Miscellaneous Funds	Total
Net assets at July 1, 2003	\$ 24,294,904	\$ 82,122,992	\$ 110,731,680	\$ 217,149,576
Change in net assets	<u>(1,752,125)</u>	<u>(2,266,399)</u>	<u>897,306</u>	<u>(3,121,218)</u>
Net assets at June 30, 2004	<u>\$ 22,542,779</u>	<u>\$ 79,856,593</u>	<u>\$ 111,628,986</u>	<u>\$ 214,028,358</u>

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS -- NONMAJOR ENTERPRISE FUNDS

Year ended June 30, 2004

	Revenue Bond Funds	Other Funds	Miscellaneous Funds	Total
Cash flows from operating activities:				
Cash received from renters	\$ 3,509,386	\$ 4,429,030	\$ -	\$ 7,938,416
Cash received from borrowers				
Principal repayments	327,437	-	5,663,082	5,990,519
Interest income	139,304	-	1,929,915	2,069,219
Cash received from net investment in financing lease	1,233,399	-	-	1,233,399
Cash received for conveyance taxes	-	-	4,608,054	4,608,054
Cash payments for loan originations	-	-	(10,981,533)	(10,981,533)
Cash payments for interest	(1,873,650)	-	-	(1,873,650)
Cash payments to employees	(88,245)	(1,595,168)	(1,637,697)	(3,321,110)
Cash payments to suppliers	(1,614,686)	(2,805,876)	(5,297,154)	(9,717,716)
Cash received (payments to) from other funds	(2,497)	1,002,338	(226,943)	772,898
Other cash receipts	233,039	220,390	4,847,462	5,300,891
Net cash provided by (used in) operating activities	1,863,487	1,250,714	(1,094,814)	2,019,387
Cash flows from noncapital financing activities:				
Interest paid to the Department of Budget and Finance	-	(2,217)	(13,000)	(15,217)
Operating transfers in	-	169,451	-	169,451
Operating transfers out	-	(400,000)	(3,007,114)	(3,407,114)
Net cash provided by (used in) noncapital financing activities	-	(232,766)	(3,020,114)	(3,252,880)
Subtotal carried forward	\$ 1,863,487	\$ 1,017,948	\$ (4,114,928)	\$ (1,233,493)

## COMBINING STATEMENT OF CASH FLOWS – NONMAJOR ENTERPRISE FUNDS (continued)

Year ended June 30, 2004

	Revenue Bond Funds	Other Funds	Miscellaneous Funds	Total
Subtotal brought forward	\$ 1,863,487	\$ 1,017,948	\$ (4,114,928)	\$ (1,233,493)
Cash flows from capital and related financing activities:				
Payments for acquisition of property and equipment	-	(45,811)	-	(45,811)
Principal paid on revenue bond maturities and redemptions	(1,252,437)	-	-	(1,252,437)
Arbitrage rebate liability paid	-	-	-	-
Interest paid on revenue bonds	(1,614,219)	-	-	(1,614,219)
Principal payments on mortgage loans	-	(106,905)	-	(106,905)
Payments of interest	-	(179,955)	-	(179,955)
Net cash used in capital and related financing activities	(2,866,656)	(332,671)	-	(3,199,327)
Cash flows from investing activities:				
Purchases of investments	(216,000)	-	-	(216,000)
Proceeds from maturities of investments	294,625	-	5,524	300,149
Receipts of interest	1,970,836	194,134	7,431,077	9,596,047
Net increase in restricted deposits and funded reserves	-	(282,161)	-	(282,161)
Net cash provided by (used in) investing activities	2,049,461	(88,027)	7,436,601	9,398,035
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,046,292	597,250	3,321,673	4,965,215
Cash and cash equivalents at July 1, 2003	17,349,746	3,857,011	45,068,115	66,274,872
Cash and cash equivalents at June 30, 2004	\$ 18,396,038	\$ 4,454,261	\$ 48,389,788	\$ 71,240,087
Reconciliation of cash to cash and cash equivalents:				
Cash	\$ 894,384	\$ 4,454,261	\$ 48,389,788	\$ 53,738,433
Money market funds	17,501,654	-	-	17,501,654
Cash and cash equivalents at June 30, 2004	\$ 18,396,038	\$ 4,454,261	\$ 48,389,788	\$ 71,240,087

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR ENTERPRISE FUNDS (continued)

Year ended June 30, 2004

	Revenue Bond Funds	Other Funds	Miscellaneous Funds	Total
Cash flows from operating activities:				
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (173,861)	\$ (2,086,991)	\$ 3,960,446	\$ 1,699,594
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	1,559,059	2,467,290	-	4,026,349
Provision for losses	40,683	74,399	163,108	278,190
Changes in assets and liabilities:				
Mortgage loan receivables	327,437	-	(334,815)	(7,378)
Notes and loans receivables	-	-	(5,000,000)	(5,000,000)
Accrued interest receivable on mortgages, notes and loans	-	-	(68,291)	(68,291)
Tenant receivables	(48,446)	(200,232)	-	(248,678)
Other receivables	2,113	(10,521)	933	(7,475)
Due from other funds	-	(29,249)	(1,180,506)	(1,209,755)
Due from State of Hawaii	-	-	1,073	1,073
Due from HUD	-	(12,205)	-	(12,205)
Inventories	-	5,088	(22,584)	(17,496)
Prepaid expenses and other assets	(37,017)	2,584	161,395	126,962
Net investment in lease financing	438,232	-	-	438,232
Deposits held in trust	-	(6,836)	-	(6,836)
Accounts payable	(223,217)	(2,625)	249,471	23,629
Accrued interest payable	(6,755)	-	-	(6,755)
Other accrued expenses	(14,668)	(15,219)	29,707	(180)
Due to other funds	(2,497)	1,031,585	952,882	1,981,970
Due to HUD	-	21,265	-	21,265
Security deposits	2,424	9,600	(7,633)	4,391
Deferred income	-	2,781	-	2,781
Net cash provided by (used in) operating activities	\$ 1,863,487	\$ 1,250,714	\$ (1,094,814)	\$ 2,019,387

## COMBINING STATEMENT OF NET ASSETS - NONMAJOR REVENUE BOND FUNDS

Year ended June 30, 2004

	ASSETS		State of Hawaii Affordable Rental Program		University of Hawaii Faculty Housing Program Revenue Bond Fund		Total
Current assets							
Cash		\$ -	\$ 506,776		\$ 343,297		\$ 850,073
Receivables							
Mortgage loans		31,455	-		-		31,455
Accrued interest		96,545	14,679		-		111,224
Tenant receivables, less allowance for doubtful accounts		-	22,670		-		22,670
Other		2,483	198,522		24,032		225,037
Net investment in financing lease		-	-		460,545		460,545
Prepaid expenses and other assets		-	41,254		-		41,254
Deferred bond discount and issuance costs		-	25,651		-		44,559
Total current assets		130,483	809,552		846,762		1,786,817
Assets held by trustees under Revenue Bond Programs							
Cash		5,661	38,650		-		44,311
Investments		32,598,455	20,735,654		-		53,334,109
Mortgage loans, net of current portion		1,705,394	-		-		1,705,394
Net investment in financing lease, net of current portion		-	-		16,840,731		16,840,731
Deferred bond discount and issuance costs, net of current portion		-	382,418		299,118		681,536
Capital assets, less accumulated depreciation		-	37,340,843		-		37,340,843
TOTAL ASSETS		\$ 34,439,993	\$ 59,307,117		\$ 17,986,631		\$ 111,733,741
LIABILITIES AND NET ASSETS							
Revenue bonds payable							
Current liabilities							
Accounts payable		\$ -	\$ 105,276		\$ -		\$ 105,276
Accrued expenses							
Interest		713,176	233,388		219,546		1,166,110
Other		7,602	11,240		-		18,842
Due to other funds		(203,146)	47,121		8		(156,017)
Security deposits		-	263,208		-		263,208
Revenue bonds payable		335,000	355,000		380,000		1,070,000
Total current liabilities		852,632	1,015,233		599,554		2,467,419
Arbitrage rebate payable		-	1,694		-		1,694
Note payable, net of current portion		-	3,500,000		-		3,500,000
Revenue bonds payable							
net of current portion		31,671,849	36,485,000		15,065,060		83,221,849
Net assets							
Invested in capital assets, net of related debt		-	(2,591,088)		-		(2,591,088)
Restricted by legislation and contractual agreements		32,604,116	20,774,304		-		53,378,420
Unrestricted		(30,688,604)	121,974		2,322,077		(28,244,553)
Total net assets		1,915,512	18,305,190		2,322,077		22,542,779
TOTAL LIABILITIES AND NET ASSETS		\$ 34,439,993	\$ 59,307,117		\$ 17,986,631		\$ 111,733,741

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF REVENUES AND EXPENSES -- NONMAJOR REVENUE BOND FUNDS

Year ended June 30, 2004

	Multifamily Housing Revenue Bond Fund	State of Hawaii Affordable Rental Program	University of Hawaii Faculty Housing Program Revenue Bond Fund	Total
Operating revenues				
Interest on mortgages, notes, loans and mortgage-backed securities	\$ 127,576	\$ -	\$ 806,895	\$ 934,471
Rental	-	3,555,408	-	3,555,408
Other	63,747	167,177	-	230,924
Total operating revenues	191,323	3,722,585	806,895	4,720,803
Operating expenses				
Project	-	1,089,247	-	1,089,247
Personal services	19,726	68,519	5,872	94,117
Depreciation	-	1,559,059	-	1,559,059
Administration	11,981	25,916	1,034	38,931
Provision for losses	-	40,683	-	40,683
Professional services	7,516	18,433	11,622	37,571
Security	23	52	8	83
Insurance	188	(13)	90	265
Repairs and maintenance	510	2,251	129	2,890
Utilities	-	781	-	781
Capital expenditures	250	12,670	-	12,920
Interest expense	1,859,632	-	-	1,859,632
Other	59,508	98,927	50	158,485
Total operating expenses	1,959,334	2,916,525	18,805	4,894,664
Operating (loss) income	(1,768,011)	806,060	788,090	(173,861)
Nonoperating revenues (expenses)				
Interest income - investments	1,826,920	140,381	-	1,967,301
Net decrease in fair value of investments	(1,723,450)	-	-	(1,723,450)
Interest expense	(34)	(738,075)	(871,845)	(1,609,954)
Letter of credit fees	-	(153,716)	-	(153,716)
Trustee fees	(7,263)	(56,053)	-	(63,316)
Amortization of deferred bond issuance costs	-	(25,887)	(19,285)	(45,172)
Loss on disposal of property and equipment	-	(110)	-	(110)
Other revenues	-	14,370	35,783	50,153
Total nonoperating revenues (expenses)	96,173	(819,090)	(855,347)	(1,578,264)
CHANGE IN NET ASSETS	\$ (1,671,838)	\$ (13,030)	\$ (67,257)	\$ (1,752,125)

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CHANGES IN FUND NET ASSETS --  
NONMAJOR REVENUE BOND FUNDS

Year ended June 30, 2004

	Multifamily Housing Revenue Bond Fund	State of Hawaii Affordable Rental Program	University of Hawaii Faculty Housing Program Revenue Bond Fund	Total
Net assets at July 1, 2003	\$ 3,587,350	\$ 18,318,220	\$ 2,389,334	\$ 24,294,904
Change in net assets	<u>(1,671,838)</u>	<u>(13,030)</u>	<u>(67,257)</u>	<u>(1,752,125)</u>
Net assets at June 30, 2004	<u>\$ 1,915,512</u>	<u>\$ 18,305,190</u>	<u>\$ 2,322,077</u>	<u>\$ 22,542,779</u>

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR REVENUE BOND FUNDS

Year ended June 30, 2004

	Multifamily Housing Revenue Bond Fund	State of Hawaii Affordable Rental Program	University of Hawaii Faculty Housing Program Revenue Bond Fund	Total
Cash flows from operating activities:				
Cash received from renters	\$ -	\$ 3,509,386	\$ -	\$ 3,509,386
Cash received from borrowers				
Principal repayments	327,437	-	-	327,437
Interest income	127,576	-	11,728	139,304
Cash received from net investment in financing lease	-	-	1,233,399	1,233,399
Cash payments for interest	(1,873,650)	-	-	(1,873,650)
Cash payments to employees	(19,726)	(68,519)	-	(88,245)
Cash payments to suppliers	(86,392)	(1,509,489)	(18,805)	(1,614,686)
Cash (payments to) receipts from other funds	(21,725)	25,627	(6,399)	(2,497)
Other cash receipts	68,388	131,821	32,830	233,039
Net cash (used in) provided by operating activities	(1,478,092)	2,088,826	1,252,753	1,863,487
Cash flows from capital and related financing activities:				
Principal paid on revenue bond maturities and redemptions	(642,437)	(250,000)	(360,000)	(1,252,437)
Arbitrage rebate liability paid	-	-	-	-
Interest paid on revenue bonds	-	(740,820)	(873,399)	(1,614,219)
Net cash used in capital and related financial activities	(642,437)	(990,820)	(1,233,399)	(2,866,656)
Cash flows from investing activities:				
Purchases of investments	-	(216,000)	-	(216,000)
Proceeds from maturities of investments	294,625	-	-	294,625
Receipts of interest	1,828,181	142,655	-	1,970,836
Net cash provided by investing activities	2,122,806	(73,345)	-	2,049,461
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	2,277	1,024,661	19,354	1,046,292
Cash and cash equivalents at July 1, 2003	3,384	17,022,419	323,943	17,349,746
Cash and cash equivalents at June 30, 2004	\$ 5,661	\$ 18,047,080	\$ 343,297	\$ 18,396,038
Reconciliation of cash to cash and cash equivalents:				
Cash	\$ 5,661	\$ 545,426	\$ 343,297	\$ 894,384
Money market funds	-	17,501,654	-	17,501,654
Cash and cash equivalents at June 30, 2004	\$ 5,661	\$ 18,047,080	\$ 343,297	\$ 18,396,038



Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR REVENUE BOND FUNDS (continued)

Year ended June 30, 2004

	Multifamily Housing Revenue Bond Fund	State of Hawaii Affordable Rental Program	University of Hawaii Faculty Housing Program Revenue Bond Fund	Total
Cash flows from operating activities:				
Reconciliation of operating (loss) income to net cash (used in)				
provided by operating activities:				
Operating (loss) income	\$ (1,768,011)	\$ 806,060	\$ 788,090	\$ (173,861)
Adjustments to reconcile operating (loss) income to net				
cash (used in) provided by operating activities:				
Depreciation	-	1,559,059	-	1,559,059
Provision for losses	-	40,683	-	40,683
Changes in assets and liabilities:				
Mortgage loans receivables	327,437	-	-	327,437
Tenant receivables	-	(48,446)	-	(48,446)
Other receivables	4,640	(35,357)	32,830	2,113
Prepaid expenses and other assets	-	(37,017)	-	(37,017)
Net investment in lease financing	-	-	438,232	438,232
Accounts payable	(7,263)	(215,954)	-	(223,217)
Accrued interest payable	(6,755)	-	-	(6,755)
Other accrued expenses	(6,415)	(8,253)	-	(14,668)
Due to other funds	(21,725)	25,627	(6,399)	(2,497)
Security deposits	-	2,424	-	2,424
Net cash (used in) provided by operating activities	\$ (1,478,092)	\$ 2,088,826	\$ 1,252,753	\$ 1,863,487

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS – NONMAJOR OTHER ENTERPRISE FUNDS

June 30, 2004

ASSETS	Housing Revolving Fund	Housing for Elders Revolving Fund	Teacher Housing Revolving Fund	Banyan Street Manor Project	Wilikina Apartments Project	Kekulani Gardens Project	Kekumu at Waikoloa Project	Total
Current assets								
Cash	\$ 139,763	\$ 2,219,639	\$ 715,452	\$ 61,619	\$ 1,292,771	\$ 19,303	\$ 5,714	\$ 4,454,261
Receivables								
Accrued interest	-	9,837	8,036	-	-	1,575	-	19,448
Tenant receivables, less allowance for doubtful accounts	173,081	7,544	48,612	2,307	22,617	54,553	4,062	312,776
Other	8,918	-	3,989	-	7,240	-	-	20,147
Due from other funds	78,550	686,933	-	-	-	-	-	765,483
Due from HUD	-	-	-	16,825	3,485	-	-	20,310
Inventories								
Materials and supplies	13,289	37,838	-	-	-	-	-	51,127
Prepaid expenses and other assets	-	18,019	1,400	57,484	-	-	-	76,903
Deposits held in trust	-	-	-	12,503	23,830	36,603	24,832	97,768
Total current assets	413,601	2,979,810	777,489	150,738	1,349,943	112,034	34,608	5,818,223
Notes and loans	426,100	-	-	-	-	-	-	426,100
Other receivables	441,014	-	-	-	-	-	-	441,014
Advances to other funds	175,000	130,000	20,000	-	-	-	-	325,000
Restricted deposits and funded reserves	-	-	-	2,515,422	4,223,551	612,384	1,091	7,352,448
Capital assets, less accumulated depreciation	13,596,738	46,776,066	1,399,824	2,740,619	5,912,320	5,079,556	-	75,505,123
TOTAL ASSETS	\$ 15,052,453	\$ 49,885,876	\$ 2,197,313	\$ 5,406,779	\$ 11,485,814	\$ 5,803,974	\$ 35,699	\$ 89,867,908

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS -- NONMAJOR OTHER ENTERPRISE FUNDS

June 30, 2004

LIABILITIES AND NET ASSETS	June 30, 2004						
	Housing Revolving Fund	Housing for Elders Revolving Fund	Teacher Housing Revolving Fund	Banyan Street Manor Project	Wilikina Apartments Project	Kekuilani Gardens Project	Kekumu at Waikoloa Project
							Total
Current liabilities							
Accounts payable	\$ 50	\$ -	\$ -	\$ 17,161	\$ 17,794	\$ 12,779	\$ 1
Accrued expenses							
Interest				71,073	-	-	-
Other	187,241	118,847	15,026	-	7,920	-	71,073
Due to other funds	1,635,518	751,220	52	-	-	-	612,810
Due to HUD	-	-	-	21,543	1,801	-	2,386,790
Security deposits	32,258	91,386	19,350	12,436	23,830	36,602	23,344
Mortgage payable	-	-	-	84,000	-	30,308	240,694
Deferred income	-	-	-	2,205	2,633	-	114,308
Total current liabilities	1,855,067	961,453	34,428	208,418	53,978	79,689	3,501,642
Note payable, net of current portion	-	-	-	171,327	-	-	171,327
Mortgage payable, net of current portion	-	-	-	652,326	-	5,686,020	6,338,346
Net assets							
Invested in capital assets, net of related debt	13,596,738	46,776,066	1,399,824	1,832,966	5,912,320	(636,772)	68,881,142
Restricted by legislation and contractual agreements	-	-	-	2,515,422	4,223,551	612,384	7,352,448
Unrestricted	(399,352)	2,148,357	763,061	26,320	1,295,965	62,653	3,623,003
Total net assets	13,197,386	48,924,423	2,162,885	4,374,708	11,431,836	38,265	79,856,593
TOTAL LIABILITIES AND NET ASSETS	\$ 15,052,453	\$ 49,885,876	\$ 2,197,313	\$ 5,406,779	\$ 11,485,814	\$ 5,803,974	\$ 89,867,908

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF REVENUES AND EXPENSES -- NONMAJOR OTHER ENTERPRISE FUNDS

Year ended June 30, 2004

	Housing Revolving Fund	Housing for Elders Revolving Fund	Teacher Housing Revolving Fund	Banyan Street Manor Project	Wilikia Apartments Project	Kekulani Garden Project	Kekumu at Waikoloa Project	Total
Operating revenues								
Rental	\$ 783,635	\$ 1,569,282	\$ 231,274	\$ 437,133	\$ 841,614	\$ 433,041	\$ 332,094	\$ 4,628,073
Other	42,968	47,250	24,500	13,112	61,976	16,598	11,145	217,549
Total operating revenues	826,603	1,616,532	255,774	450,245	903,590	449,639	343,239	4,845,622
Operating expenses								
Personal services	753,813	318,337	66,790	67,713	210,456	114,743	63,316	1,595,168
Depreciation	410,694	1,386,823	53,914	137,540	322,288	156,031	-	2,467,290
Administration	65,692	162,499	32,492	25,320	67,217	21,951	199,603	574,774
Provision for losses	17,047	13,628	-	23,724	20,000	-	-	74,399
Professional services	28,674	4,676	5,145	13,789	18,549	15,000	6,318	92,151
Mortgage insurance	-	-	-	5,770	-	-	-	5,770
Security	429	622	28	-	49,297	-	-	50,376
Insurance	6,250	16,193	649	-	3,950	-	-	27,042
Repairs and maintenance	155,508	456,378	40,755	47,148	60,998	34,174	24,722	819,683
Utilities	354,562	554,046	8,492	40,565	70,494	41,115	55,408	1,124,682
Capital expenditures	30,118	29,850	4,784	-	-	-	-	64,752
Other	28	23	3	-	8,907	27,565	-	36,526
Total operating expenses	1,822,815	2,943,075	213,052	361,569	832,156	410,579	349,367	6,932,613
Operating (loss) income	(996,212)	(1,326,543)	42,722	88,676	71,434	39,060	(6,128)	(2,086,991)
Nonoperating revenues (expenses)								
Interest income - investments	111,269	44,089	15,338	5,742	54,439	2,098	-	232,975
Interest expense	(1,909)	-	(308)	(57,942)	-	(121,525)	-	(181,684)
Loss on disposal of property and equipment	-	(150)	-	-	-	-	-	(150)
Total nonoperating revenues (expenses)	109,360	43,939	15,030	(52,200)	54,439	(119,427)	-	51,141
(Loss) income before operating transfers	(886,852)	(1,282,604)	57,752	36,476	125,873	(80,367)	(6,128)	(2,035,850)
Operating transfers in	169,451	-	-	-	-	-	-	169,451
Operating transfers out	-	-	(400,000)	-	-	-	-	(400,000)
Total operating transfers in (out)	169,451	-	(400,000)	-	-	-	-	(230,549)
CHANGE IN NET ASSETS	\$ (717,401)	\$ (1,282,604)	\$ (342,248)	\$ 36,476	\$ 125,873	\$ (80,367)	\$ (6,128)	\$ (2,266,399)

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CHANGES IN FUND NET ASSETS -- NONMAJOR OTHER ENTERPRISE FUNDS

Year ended June 30, 2004

	Housing Revolving Fund	Housing for Elders Revolving Fund	Teacher Housing Revolving Fund	Banyan Street Manor Project	Wilkina Apartments Project	Kekulani Gardens Project	Kekumu at Waikoloa Project	Total
Net assets at June 30, 2003	\$ 13,914,787	\$ 50,207,027	\$ 2,505,133	\$ 4,338,232	\$ 11,305,963	\$ 118,632	\$ (266,782)	\$ 82,122,992
Change in net assets	(717,401)	(1,282,604)	(342,248)	36,476	125,873	(80,367)	(6,128)	(2,266,399)
Net assets at June 30, 2004	\$ 13,197,386	\$ 48,924,423	\$ 2,162,885	\$ 4,374,708	\$ 11,431,836	\$ 38,265	\$ (272,910)	\$ 79,856,593

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR OTHER ENTERPRISE FUNDS

Year ended June 30, 2004

	Housing Revolving Fund	Housing for Elders Revolving Fund	Teacher Housing Revolving Fund	Banyan Street Manor Project	Wilikina Apartments Project	Kekaulani Gardens Project	Kekauhi at Wakolea Project	Total
Cash flows from operating activities:								
Cash received from renters	\$ 672,353	\$ 1,507,543	\$ 232,523	\$ 413,397	\$ 810,383	\$ 400,685	\$ 332,146	\$ 4,429,030
Cash payments to employees	(753,813)	(318,337)	(66,790)	(67,713)	(210,456)	(114,743)	(63,316)	(1,595,168)
Cash payments to suppliers	(594,979)	(1,287,800)	(93,316)	(129,795)	(279,944)	(133,656)	(286,386)	(2,805,876)
Cash receipts (payments) from other funds	251,475	751,187	(324)	-	-	-	-	1,002,338
Other cash receipts (payments)	40,697	48,071	21,221	19,830	61,839	17,587	11,145	220,390
Net cash (used in) provided by operating activities	(384,267)	760,664	93,314	235,719	381,822	169,873	(6,411)	1,250,714
Cash flows from noncapital financing activities:								
Interest paid to Department of Budget and Finance	(1,909)	-	(308)	-	-	-	-	(2,217)
Operating transfers in	169,451	-	-	-	-	-	-	169,451
Operating transfers out	-	-	(400,000)	-	-	-	-	(400,000)
Net cash provided by (used in) noncapital financing activities	167,542	-	(400,308)	-	-	-	-	(232,766)
Cash flows from capital and related financing activities:								
Payments for acquisition of property and equipment	-	(17,500)	-	(9,891)	(18,420)	-	-	(45,811)
Principal payments on mortgage loans	-	-	-	(78,012)	-	(28,893)	-	(106,905)
Payments of interest	-	-	-	(58,430)	-	(121,525)	-	(179,955)
Net cash used in capital and related financing activities	-	(17,500)	-	(146,333)	(18,420)	(150,418)	-	(332,671)
Cash flows from investing activities:								
Receipts of interest	72,920	43,758	15,177	5,742	54,439	2,098	-	194,134
Net increase in restricted deposits and funded reserves	-	-	-	(91,477)	(128,585)	(62,098)	(1)	(282,161)
Net cash provided by (used in) investing activities	72,920	43,758	15,177	(85,735)	(74,146)	(60,000)	(1)	(88,027)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(143,805)	786,922	(201,817)	3,651	289,256	(40,545)	(6,412)	597,250
Cash and cash equivalents at July 1, 2003	283,568	1,432,717	1,007,269	57,968	1,003,515	59,848	12,126	3,857,011
Cash and cash equivalents at June 30, 2004	\$ 139,763	\$ 2,219,639	\$ 715,452	\$ 61,619	\$ 1,292,771	\$ 19,303	\$ 5,714	\$ 4,454,261

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR OTHER ENTERPRISE FUNDS (continued)

Year ended June 30, 2004

	Housing Revolving Fund	Housing for Elders Revolving Fund	Teacher Housing Revolving Fund	Banyan Street Manor Project	Wilikina Apartments Project	Kekuilani Gardens Project	Kekumu at Waikoloa Project	Total
Cash flows from operating activities:								
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:								
Operating (loss) income	\$ (906,212)	\$ (1,326,543)	\$ 42,722	\$ 88,676	\$ 71,434	\$ 39,060	\$ (6,128)	\$ (2,086,991)
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:								
Depreciation	410,694	1,386,823	53,914	137,540	322,288	156,031	-	2,467,290
Provision for losses	17,047	13,628	-	23,724	20,000	-	-	74,399
Changes in assets and liabilities:								
Tenant receivables	(111,436)	(7,140)	3,999	(23,696)	(31,231)	(30,780)	52	(200,232)
Other receivables	(2,243)	844	(3,276)	-	(5,260)	(586)	-	(10,521)
Due from other funds	(29,249)	-	-	-	-	-	-	(29,249)
Due from HUD	-	-	-	(14,795)	2,590	-	-	(12,205)
Inventories	(12,902)	17,990	-	-	-	-	-	5,088
Prepaid expenses and other assets	-	-	(1,400)	3,984	-	-	-	2,584
Deposits held in trust	-	-	-	281	(3,040)	(3,634)	(443)	(6,836)
Accounts payable	(1,417)	-	(3,334)	(1,187)	(2,501)	6,149	(335)	(2,625)
Other accrued expenses	60,575	(81,526)	3,763	-	1,969	-	-	(15,219)
Due to other funds	280,722	751,187	(324)	-	-	-	-	1,031,585
Due to HUD	-	-	-	20,194	1,071	-	-	21,265
Security deposits	154	5,401	(2,750)	(321)	3,040	3,633	443	9,600
Deferred income	-	-	-	1,319	1,462	-	-	2,781
Net cash (used in) provided by operating activities	\$ (384,267)	\$ 760,664	\$ 93,314	\$ 235,719	\$ 381,822	\$ 169,873	\$ (6,411)	\$ 1,250,714

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS – NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS

June 30, 2004

ASSETS	Fee Simple Residential Revolving Fund	Rental Assistance Fund	Housing Finance Revolving Fund	Disbursing Fund	Rental Housing Trust Fund	Housing Alteration Revolving Loan Fund	Federal Grant Program Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Current Assets											
Cash	\$ 349,136	\$ 28,323,994	\$ 1,758,960	\$ 2,543,156	\$ 15,217,924	\$ -	\$ 48,523	\$ 134,194	\$ -	\$ 13,901	\$ 48,389,788
Investments	-	-	-	-	-	-	-	-	-	-	-
Receivables	-	-	-	-	-	-	-	-	-	-	-
Mortgage loans	-	-	70,000	-	343,754	-	-	-	10,425	28,567	452,746
Accrued interest	7,759	611,504	129,231	-	972,369	-	-	-	1,851	1,314	1,724,028
Other	-	-	-	-	-	-	18,909	-	-	-	18,909
Due from other funds	105,984	-	1,138,547	-	-	-	-	-	-	-	4,881,287
Due from State of Hawaii	-	-	-	-	-	-	-	-	-	-	846
Inventories	-	-	-	-	-	-	-	-	-	-	-
Materials and supplies	-	-	-	101,465	-	-	-	-	-	-	101,465
Prepaid expenses and other assets	-	45,704	-	8,033	-	-	-	-	-	-	53,737
Deposits held in trust	6,898	-	-	-	-	-	-	-	-	-	6,898
Total current assets	469,777	28,981,202	3,096,738	6,290,256	16,534,047	-	67,432	134,194	12,276	43,782	55,629,704
Investments	-	-	-	-	-	-	-	-	-	-	-
Mortgage loans, net of current portion	-	6,741,269	15,260	-	-	-	-	-	-	-	6,756,529
Notes and loans, net of current portion	-	2,249,985	1,753,368	-	52,739,339	-	-	-	-	-	56,742,692.00
Other receivables	260,366	-	-	-	-	-	-	-	-	-	260,366
TOTAL ASSETS	\$ 730,143	\$ 37,972,456	\$ 4,865,366	\$ 6,290,256	\$ 69,273,386	\$ -	\$ 67,432	\$ 134,194	\$ 12,276	\$ 43,782	\$ 119,389,291



Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS – NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS

June 30, 2004

	Fee Simple Residential Revolving Fund	Rental Assistance Fund	Housing Finance Revolving Fund	Disbursing Fund	Rental Housing Trust Fund	Housing Alteration Revolving Loan Fund	Federal Grant Program Fund	Grants-In-Aid Fund	Hamakua	Waialua	Total
LIABILITIES AND NET ASSETS											
Current Liabilities											
Accounts payable	\$ 5,452	\$ -	\$ 181	\$ 253,408	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 259,041
Accrued expenses											
Other	19,887	76,358	101,867	9,804	2,276	-	-	-	-	-	210,192
Due to other funds	95	856	913,390	5,878,093	722	-	67,432	-	9,647	19,679	6,889,914
Due to State of Hawaii	-	-	-	25,000	-	-	-	-	-	-	25,000
Security deposits	6,898	-	369,260	-	-	-	-	-	-	-	376,158
Total current liabilities	32,332	77,214	1,384,698	6,166,305	2,998	-	67,432	-	9,647	19,679	7,760,305
Net assets											
Restricted by legislation and contractual agreements	-	-	-	-	-	-	-	-	-	-	-
Unrestricted	697,811	37,895,242	3,480,668	123,951	69,270,388	-	-	134,194	2,629	24,103	111,628,986
Total net assets	697,811	37,895,242	3,480,668	123,951	69,270,388	-	-	134,194	2,629	24,103	111,628,986
TOTAL LIABILITIES AND NET ASSETS	\$ 750,143	\$ 37,972,456	\$ 4,865,366	\$ 6,290,256	\$ 69,273,386	\$ -	\$ 67,432	\$ 134,194	\$ 12,276	\$ 43,782	\$ 119,389,291

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF REVENUES AND EXPENSES – NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS

Year ended June 30, 2004

	Fee Simple Residential Revolving Fund	Rental Assistance Fund	Housing Finance Revolving Fund	Disbursing Fund	Rental Housing Trust Fund	Housing Alteration Revolving Loan Fund	Federal Grant Program Fund	Grant-In-Aid Fund	Honolulu Fund	Waialua Fund	Total
Operating revenues											
Interest on mortgages, notes, loans and mortgage-backed securities	\$ -	\$ 1,292,534	104,944	\$ -	\$ 592,923	\$ -	\$ -	\$ -	\$ 746	\$ 1,224	\$ 1,992,351
Conveyance tax	-	-	-	-	4,608,054	-	-	-	-	-	4,608,054
Other	82,000	13,542	1,316,732	-	-	-	3,440,958	-	35	50	4,853,317
Total operating revenues	82,000	1,306,056	1,421,676	-	5,200,977	-	3,440,958	-	781	1,274	11,453,722
Operating expenses											
Project											
Personal services	71,315	78,556	1,318,344	-	-	-	3,342,393	-	-	-	3,342,393
Housing assistance payments	-	1,940,329	-	-	123,219	-	76,876	-	-	-	1,668,310
Administration	12,579	18,678	196,888	-	24,253	-	20,040	-	-	-	1,940,329
Provision for losses	169,442	-	30,600	-	-	-	-	-	-	-	272,438
Professional services	24,289	8,463	26,629	-	22,953	-	1,649	-	-	-	140,042
Security	24	48	81	-	1	-	-	-	1,431	-	81,131
Insurance	34	232	538	-	18	-	-	-	-	-	154
Repairs and maintenance	471	1,193	5,604	-	1,674	-	-	-	-	-	822
Capital expenditures	10	1,069	2,803	-	78	-	-	-	-	-	8,942
Other	1	19	34,734	-	1	-	-	-	-	-	3,900
Total operating expenses	218,165	2,048,587	1,610,221	-	172,197	-	3,440,958	-	1,717	1,431	7,493,276
Operating (loss) income	(136,165)	(742,531)	(188,545)	-	5,028,780	-	-	-	(936)	(157)	3,960,446
Nonoperating revenues (expenses)											
Interest income - investments	9,649	146,707	57,573	-	428,947	-	-	336	-	-	643,212
Net increase (decrease) in fair value of investments	-	(689,095)	435	-	-	-	-	-	-	-	(688,660)
Interest expense	(310)	(11,822)	(868)	-	-	-	-	-	-	-	(13,000)
Other income	-	-	-	-	-	-	-	-	-	-	-
Total nonoperating revenues	9,339	(542,190)	57,140	-	428,947	-	-	336	-	-	(58,448)
(Loss) income before operating transfers	(126,826)	(1,206,741)	(131,405)	-	5,457,727	-	-	336	(936)	(157)	3,901,998
Operating transfers in/(out)	-	-	(3,000,000)	-	-	2,422	-	-	(7,114)	-	(3,004,692)
CHANGE IN NET ASSETS	\$ (126,826)	\$ (1,206,741)	\$ (1,311,405)	\$ -	\$ 5,457,727	\$ 2,422	\$ -	\$ 336	\$ (8,050)	\$ (157)	\$ 897,306

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CHANGES IN FUND NET ASSETS - NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS

Year ended June 30, 2004

	Fee Simple Residential Revolving Fund	Rental Assistance Fund	Housing Finance Revolving Fund	Disbursing Fund	Rental Housing Trust Fund	Housing Alteration Revolving Loan Fund	Federal Grant Program Fund	Grant-In-Aid Fund	Hanalei	Waialua	Total
Net assets at July 1, 2003	\$ 824,637	\$ 39,191,983	\$ 6,612,073	\$ 123,951	\$ 63,812,661	\$ (2,422)	\$ -	\$ 133,858	\$ 10,679	\$ 24,260	\$ 110,731,680
Change in net assets	(126,826)	(1,296,741)	(3,131,405)	-	5,457,727	2,422	-	336	(8,050)	(157)	897,306
Net assets at June 30, 2004	\$ 697,811	\$ 37,895,242	\$ 3,480,668	\$ 123,951	\$ 69,270,388	\$ -	\$ -	\$ 134,194	\$ 2,629	\$ 24,103	\$ 111,628,986

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS -- NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS

Year ended June 30, 2004

	Fee Simple Revolving Fund	Rental Assistance Fund	Housing Finance Revolving Fund	Disbursing Fund	Rental Housing Trust Fund	Housing Alteration Revolving Loan Fund	Federal Grant Program Fund	Grant-In-Aid Fund	Hannakua	Waiahua	Total
Cash flows from operating activities:											
Cash received from borrowers											
Principal repayments	\$ 933	\$ 5,000,000	\$ 104,979	\$ -	\$ 450,243	\$ -	\$ -	\$ -	\$ 7,014	\$ 9,913	\$ 5,663,082
Interest income	-	1,326,572	134,406	-	467,325	-	-	-	534	988	1,929,915
Cash received for conveyance taxes	-	-	-	-	4,608,054	-	-	-	-	-	4,608,054
Cash payments for loan originations	-	-	-	-	(10,981,533)	-	-	-	-	-	(10,981,533)
Cash payments to employees	(71,315)	(78,556)	(1,318,344)	-	(92,606)	-	(76,876)	-	-	-	(1,637,697)
Cash payments to suppliers	(36,136)	(1,842,577)	(209,542)	235,252	(77,313)	-	(3,364,082)	-	(1,717)	(1,039)	(5,297,154)
Cash (payments to) receipts from other funds	3,784	755	(22,477)	(264,312)	(319)	-	54,343	-	1,283	-	(226,943)
Other cash receipts	82,000	13,542	1,316,732	-	-	-	3,435,138	-	-	50	4,847,462
Net cash (used in) provided by operating activities	(20,734)	4,419,736	95,844	(29,060)	(5,626,149)	-	48,523	-	7,114	9,912	(1,094,814)
Cash flows from noncapital financing activities:											
Interest paid to the Department of Budget and Finance	(310)	(11,822)	(868)	-	-	-	-	-	-	-	(13,000)
Operating transfers out	-	-	(3,000,000)	-	-	-	-	-	(7,114)	-	(3,007,114)
Net cash used in noncapital financing activities	(310)	(11,822)	(3,000,868)	-	-	-	-	-	(7,114)	-	(3,020,114)
Cash flows from investing activities:											
Proceeds from maturities of investments	-	-	5,524	-	-	-	-	-	-	-	5,524
Receipts of interest	9,517	6,940,316	57,879	-	423,029	-	-	336	-	-	7,431,077
Net cash provided by investing activities	9,517	6,940,316	63,403	-	423,029	-	-	336	-	-	7,436,601
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(11,527)	11,348,230	(2,841,621)	(29,060)	(5,203,120)	-	48,523	336	-	9,912	3,321,673
Cash and cash equivalents at July 1, 2003	\$ 360,663	\$ 16,975,764	\$ 4,600,581	\$ 2,572,216	\$ 20,421,044	\$ -	\$ -	\$ 133,858	\$ -	\$ 3,989	\$ 45,068,115
Cash and cash equivalents at June 30, 2004	\$ 349,136	\$ 28,323,994	\$ 1,758,960	\$ 2,543,156	\$ 15,217,924	\$ -	\$ 48,523	\$ 134,194	\$ -	\$ 13,901	\$ 48,389,788

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS (continued)

Year ended June 30, 2004

	Fee Simple Residential Revolving Fund	Rental Assistance Fund	Housing Finance Revolving Fund	Disbursing Fund	Rental Housing Trust Fund	Housing Alteration Revolving Loan Fund	Federal Grant Program Fund	Grant-In-Aid Fund	Hanalei	Waialua	Total
Cash flows from operating activities:											
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:											
Operating (loss) income	\$ (136,165)	\$ (742,531)	\$ (188,545)	\$ -	\$ 5,028,780	\$ -	\$ -	\$ -	\$ (936)	\$ (157)	\$ 3,960,446
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:											
Provision for losses	109,442	-	30,600	-	-	-	-	-	14,339	8,727	163,108
Changes in assets and liabilities:											
Mortgage loans receivables	-	10,000,000	202,612	-	(10,531,288)	-	-	-	(7,325)	1,186	(334,815)
Notes and loans receivables	-	(5,000,000)	-	-	-	-	-	-	-	-	(5,000,000)
Accrued interest receivable on mortgages, notes and loans	-	34,058	29,552	-	(125,598)	-	(5,820)	-	(247)	(236)	(68,291)
Other receivables	933	-	-	-	-	-	-	-	-	-	933
Due from other funds	3,689	-	(917,852)	(266,343)	-	-	-	-	-	-	(1,180,506)
Due from State of Hawaii	-	-	-	1,073	-	-	-	-	-	-	1,073
Inventories	-	-	-	(22,584)	-	-	-	-	-	-	(22,584)
Prepaid expenses and other assets	-	89,936	63,990	7,469	-	-	-	-	-	-	161,395
Deposits held in trust	-	-	(897)	250,368	-	-	-	-	-	-	-
Accounts payable	-	-	(11,358)	(1)	2,276	-	-	-	-	-	249,471
Other accrued expenses	1,272	37,518	895,375	958	(319)	-	54,343	-	1,283	392	952,882
Due to other funds	95	755	(7,633)	-	-	-	-	-	-	-	(7,633)
Security deposits	-	-	-	-	-	-	-	-	-	-	-
Net cash (used in) provided by operating activities	\$ (20,734)	\$ 4,419,736	\$ 95,844	\$ (29,060)	\$ (5,626,149)	\$ -	\$ 48,523	\$ -	\$ 7,114	\$ 9,912	\$ (1,094,814)

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS – INTERNAL SERVICE FUNDS

June 30, 2004

ASSETS	Equipment rental	Vehicle rental	Total
Current assets			
Cash	\$ 736,027	\$ 511,191	\$ 1,247,218
Accrued interest receivable	1,846	2,640	4,486
Total current assets	737,873	513,831	1,251,704
Capital assets, less accumulated depreciation	23,919	40,506	64,425
TOTAL ASSETS	<u>\$ 761,792</u>	<u>\$ 554,337</u>	<u>\$ 1,316,129</u>
LIABILITIES AND NET ASSETS			
Net assets			
Invested in capital assets	\$ 23,919	\$ 40,506	\$ 64,425
Unrestricted	737,873	513,831	1,251,704
Total net assets	761,792	554,337	1,316,129
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 761,792</u>	<u>\$ 554,337</u>	<u>\$ 1,316,129</u>

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF REVENUES AND EXPENSES AND  
CHANGES IN FUND NET ASSETS – INTERNAL SERVICE FUNDS

Year ended June 30, 2004

	Equipment rental	Vehicle rental	Total
Operating revenues			
Rental	\$ 29,317	\$ 14,914	\$ 44,231
Total operating revenues	29,317	14,914	44,231
Operating expenses			
Depreciation	27,970	13,437	41,407
Professional services	1,370	1,338	2,708
Capital expenditures	183,213	-	183,213
Total operating expenses	212,553	14,775	227,328
Operating loss	(183,236)	139	(183,097)
Nonoperating revenue			
Interest income - investments	21,504	12,434	33,938
Total nonoperating revenue	21,504	12,434	33,938
Change in net assets	(161,732)	12,573	(149,159)
Net assets at July 1, 2003	\$ 923,524	\$ 541,764	\$1,465,288
Net assets at June 30, 2004	\$ 761,792	\$ 554,337	\$ 1,316,129

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUNDS

Year ended June 30, 2004

	Equipment rental	Vehicle rental	Total
Cash flows from operating activities:			
Cash received from renters	\$ 29,317	\$ 14,914	\$ 44,231
Cash payments to suppliers	(184,583)	(1,338)	(185,921)
Cash receipts from other funds	-	-	-
Net cash provided by operating activities	(155,266)	13,576	(141,690)
Cash flows from capital and related financing activities:			
Payments for acquisition of property and equipment	(6,488)	-	(6,488)
Net cash used in capital and related financing activities	(6,488)	-	(6,488)
Cash flows provided by investing activities:			
Receipts of interest	21,235	12,260	33,495
Net cash provided by investing activities	21,235	12,260	33,495
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(140,519)	25,836	(114,683)
Cash and cash equivalents at July 1, 2003	876,546	485,355	1,361,901
Cash and cash equivalents at June 30, 2004	<u>\$ 736,027</u>	<u>\$ 511,191</u>	<u>\$ 1,247,218</u>
Cash flows from operating activities:			
Reconciliation of operating loss to net			
cash provided by operating activities:			
Operating loss	\$ (183,236)	\$ 139	\$ (183,097)
Adjustments to reconcile operating loss			
to net cash provided by operating activities:			
Depreciation	27,970	13,437	41,407
Changes in assets and liabilities:			
Due from other funds	-	-	-
Net cash provided by operating activities	<u>\$ (155,266)</u>	<u>\$ 13,576</u>	<u>\$ (141,690)</u>



Housing and Community Development Corporation of Hawaii

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

June 30, 2004

The Corporation's cash and short-term investments consists of the following as of June 30, 2004:

Equity in State Treasury investment pool	\$	137,948,037
Cash in banks		19,449,100
Cash held by trustees		73,745
Certificates of deposits and money market funds		90,659,146
Deposits held in trust		104,666
Petty cash		4,150
		<hr/>
	\$	248,238,844
		<hr/>

Total cash and short-term investments are in agreement with the State Comptroller's central accounting records as of June 30, 2004, as reconciled below:

	Appropriation symbol	June 30, 2004
	<hr/>	<hr/>
Cash in State Treasury		
General Fund	G-02-022-K	\$ 2,078
	G-02-303-K	7,653
	G-03-020-K	7,825
	G-03-022-K	105,550
	G-03-303-K	26,500
	G-04-020-K	392,521
	G-04-022-K	340,060
Bond Funds	B-00-404-K	27,504
	B-00-405-K	145,176
	B-00-406-K	10,931
	B-01-410-K	1,549,510
	B-01-411-K	100,586
	B-01-415-K	30,194
	B-02-431-K	1,020,770
	B-02-433-K	9,176
	B-02-434-K	84,700
	B-02-435-K	92,468
	B-02-436-K	2,329,021
	B-97-471-K	-
	B-97-479-K	28,179
	B-97-481-K	14,011
		<hr/>
Subtotal carried forward		\$ 6,324,413

Housing and Community Development Corporation of Hawaii

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS (continued)

June 30, 2004

	Appropriation symbol	June 30, 2004
Subtotal brought forward		\$ 6,324,413
Special Funds	S-97-801-K	\$ 10,889
	S-97-803-K	26,991
	S-00-308-K	8,790
	S-02-308-K	1,062
	S-02-339-K	1,769
	S-02-800-K	7,836,565
	S-03-308-K	3,313
	S-03-337-K	29,747
	S-04-210-K	449,777
	S-04-214-K	48,523
	S-04-308-K	49,263
	S-04-310-K	129,853
	S-04-319-K	13,901
	S-04-320-K	254,892
	S-04-322-K	217,090
	S-04-324-K	5,100
	S-04-330-K	58,750
	S-04-332-K	2,547,917
	S-04-334-K	588,186
	S-04-335-K	511,191
	S-04-336-K	736,027
	S-04-337-K	2,063,348
	S-04-374-K	344,037
	S-04-375-K	69,974,722
	S-04-376-K	1,541,870
	S-04-377-K	343,297
	S-04-378-K	28,322,571
Subtotal carried forward		\$ 122,443,856

Housing and Community Development Corporation of Hawaii

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS (continued)

June 30, 2004

	Appropriation symbol	June 30, 2004
Subtotal brought forward		\$ 122,443,856
Trust Funds	T-04-913-K	3,612
	T-04-927-K	276,298
	T-04-930-K	15,217,924
Total cash held in State Treasury as reported by State Comptroller's accounting records carried forward		137,941,690
Reconciling items:		
Summary warrant vouchers not recorded on books		-
Journal vouchers not recorded by DAGS		8,401
Journal vouchers not recorded on books		(97)
Adjustments not recorded on books		(1,951)
Other		(6)
		6,347
Cash and short-term investments held outside State Treasury:		
Cash in bank		19,449,100
Cash held by trustees		73,745
Investments held by bank		4,250,000
Investments held by trustees		86,409,146
Deposits held in trust		104,666
Petty cash		4,150
		110,290,807
Cash and short-term investments on statement of net assets		\$ 248,238,844